

Exploration of Alternative Financing Strategy for the Small and Medium Enterprises in South Africa

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By

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DECLARATION

I, Siyavuya Nicholas Xolo, hereby confirm that all the information contained in this report is my own work, other than the sources used as referenced in the report, and this report in full has never been submitted before for obtaining any qualification.

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ABSTRACT

Small and Medium Enterprises (SMEs) are the most talk about businesses which are vital for economic growth at the same time are faced with challenges to obtain finance from the financial institutions. The research intends making a contribution to assist coming up with a possible way and strategy to obtain funds and devise an implementation plan to make funds accessible to the SMEs.

Different studies point to almost similar causes that lead to the challenges experienced by the SMEs. Everyone that has shown an interest in the subject of the SMEs has in a way, formally or informally, proposed some kind of intervention mechanism. Different things are being tried at the same time in order to speed up the process although the progress is not to the level of satisfactory otherwise there would be no need to undertake the research.

The focus of the research is on the SMEs in South Africa. In preparation for this research, a literature review on various aspects of the SMEs was covered to ensure that whatever plan of action is going to be proposed there is no repetition of work that has already been done; instead it can be aligned to some ideas that have already been suggested.

The research explores possible ways to source funds that will be used towards financing the SMEs in South Africa. A suggested implementation strategy is to ensure that the impact is significant in improving the situation. Details of who will be responsible for what and the possible sources of funds are provided in Chapters four and five.

The research is more on devising the solution for the SMEs based on the readily available literature review information and the opinions of the researcher, for that reason there is no need for surveys or preparation of questionnaires for submission to some of the financial institutions. A great deal of work has been done in this area of the SMEs and it is clear as to what is the real challenge. Primary and secondary data are relevant for this research.

The research is undertaken with the understanding that people will have different ideas and preferences for different reasons; hence it is expected to have divided views on what is in this research report. In addressing global issues or issues of national interest a collaborative effort is crucial, and where possible innovative ideas are to be shared. The whole world is

calling for innovative ideas; the more ideas are put on the table the better, then a judgement call will be made to implement or not implement.

There are those who believe that government should intervene by reviewing policies to correct the market failure and some see the establishment of a financial institution solely intended for the SMEs. What does not come out clearly is how the institution will be funded considering that there are so many challenges in South Africa that need government intervention and the resources are limited. Based on this, the researcher identified options to be used to generate funds to be used to finance the SMEs, details are in Chapter four, and then the amount to be obtained from each option was estimated, details are in Chapter five. The strategy to manage financing of the SMEs is provided in Chapter Six and the discussion of the results which are found in different sections of this report is in Chapter Seven, followed by the conclusion.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction and Background to the Study

The fundamental drive for any entrepreneur to venture into business is to make money. Job creation is an indirect consequence of that activity. Due to improved technology, some large businesses rely heavily on machinery for mass production and to less extent to labour for operating the equipment and other duties essential for daily running of the business. On the other hand small and medium enterprises make use of few labours but can be scattered around easily, hence making a huge impact on job creation.

Everyone who follows closely an economic development understands that the Small and Medium Enterprises (SMEs) are essential catalysts for job creation and most people are employed there. Despite the contribution made by the SMEs in job creation they are still faced by challenges in securing finances with the lending institutions. They are perceived to be high risk, lacking track record and not having collateral as opposed to large businesses of which some are multi-nationals.

A lot has been done, but in terms of achieving the greatest impact not much has been attained in assisting the SMEs with finance which is discouraging to those with business ideas and a drive to run businesses. South Africa is classified as a developing country, it has to be acknowledged that as a developing country it is still lacking on the tools to assist the inspired entrepreneurs to have access to business information. Over the years, media has always been quoted saying that there is still a high number of people without access to electricity, let alone internet access which is the integral part of electricity.

There are initiatives that have been put in place to encourage entrepreneurship such as integration of entrepreneurship curriculum into some training programmes such as in engineering and others, whether these have been successful or not, would need a study on its own to substantiate an answer. What can be stated with confidence is the fact that a lack of finance can have a detrimental effect to the establishment of businesses whether business training was received or not.

It seems that the challenges of the SMEs are mounting because South Africa is intending to introduce a new law on licensing requirements. Maake (2013, p.1) states that anyone intending to do business has to apply for and pay for a licence at a local municipality, and to

ensure and enforce compliance inspectors will be sent out for spot checks. From this information one can derive that this law will reduce if not getting rid of informal SMEs. Whether this is a good or bad move, what is important is that some businesses will be impacted since non-compliance will result to a fine or 10 years jail sentence. If the country adopts to formalise the structure of the SMEs, then that emphasises the need to have some kind of financial support to encourage entrepreneurship.

The research intends making contribution to devise possible strategy to assist making funds available to the SMEs. One of several challenges which South Africa is battling with is the creation of job opportunities in order to reduce the high level of unemployment, the dependence of citizens to Government grants and housing development, among others.

It is known that no matter how creative a suggestion that is put forward some people would feel strongly against that suggestion. This research is done with that in mind and would not shy away from what seems feasible in fear of being criticised. It is impossible to bring everyone to the same level of satisfaction, but that should not be a stumbling block to the research as it does not intend to please everyone or anyone, instead it is to put forward a possible solution to some of the challenges faced by the SMEs.

Different projects and programmes compete for limited resources and these could be financial, human or otherwise. There is high expectation for government to deliver on various issues facing the country and if resources were not an issue it would be easier to do so but the reality is that these should be prioritised. Government alone cannot solve all problems of a country but a collective effort is encouraged.

The South African government has since the year 1994 encouraged partnerships with various stakeholders in addressing the challenges in the country. It realised that the only way to speed the process of bringing about change is working together otherwise it would take forever to bring about a change.

Government of South Africa has realised that infrastructure development is important to encourage foreign direct investments and local mobilisation of resources to bring about economic growth, hence huge infrastructure investments witnessed over the past 5 to 10 years. Putting much reliance on foreign assistance is as bad as leaving everything to government to solve alone. Any kind of foreign assistance is appreciated but as a country there is something that we can do collectively to make a difference. This research is built on

that principle. It all begins with the change of a mind set to look at things differently and more holistically.

The information presented above is vital for the information that will follow in the rest of the document as far as developing a strategy for the SMEs to have access to finance.

1.1.1 Definition of Small and Medium-Enterprises (SMEs)

There is no single definition of the SMEs, and this would vary from one country or organisation to another. The following extracts of definitions are taken from Abor (2011):

i. The International Definition

A firm is said to be small if it has a relatively small share of their market place; managed by owners or part owners in a personalised way, and not through the medium of a formalised management structure; and is independent, in the sense of forming part of a large enterprise.

ii. The European Commission Definition

Small enterprises are firms with 10 to 99 employees, and medium enterprises are those with 100 to 499 employees.

iii. The United Nations Industrial Development Organisation Definition

Industrialised Countries

For industrialised countries, small firms are those with 99 or less employees, and medium firms are those who employ between 100 and 499 workers.

Developing Countries

Small firms are those with 5-19 workers, and medium firms are those with 20-99 workers.

iv. The Ghanaian Definition

The National Board for Small Scale Industries

A small scale enterprise is a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian cedis.

The Ghana Statistical Service

Considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises.

*The World Bank's Regional Project on Enterprise Development
on Ghana*

Defines firms with 5 – 29 employees as small enterprises; and firms with 30 - 99 employees as medium enterprises.

v. The South African Definition

Small enterprise has the upper limit of 50 employees; and medium enterprise has the maximum number of employees of 100 or 200 for the mining, electricity, manufacturing and construction sectors.

The above definitions clearly show that there are various definitions of the SMEs and on the context of this document the South African definition is applicable.

1.1.2 Threshold for Classification of the Enterprises in South Africa

Different sectors would be classified differently due to differences in their businesses and operating environment. This section gives a breakdown of the information applicable to each sector as provided in The Department of Trade and Industry (2008) as per the information in Table 1 below.

Table 1: Thresholds for the classification for micro, very small, small and medium enterprises

Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)	Site or Class	Total full-time equivalent of paid employees (Less than)	Total annual turnover (Rand million) (Less than)	Total gross asset value (fixed property excluded) (Rand million) (Less than)
Agriculture	Medium	100	5.00	5.00
	Small	50	3.00	3.00
	Very small	10	0.50	0.50
	Micro	5	0.20	0.10
Mining and Quarrying	Medium	200	39.00	23.00
	Small	50	10.00	6.00
	Very small	20	4.00	2.00

Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)	Site or Class	Total full-time equivalent of paid employees (Less than)	Total annual turnover (Rand million) (Less than)	Total gross asset value (fixed property excluded) (Rand million) (Less than)
	Micro	5	0.20	0.10
Manufacturing	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	52.00	2.00
	Micro	5	0.20	0.10
Electricity, Gas and Water	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Construction	Medium	200	26.00	5.00
	Small	50	6.00	1.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Retail and Motor Trade and Repair Services	Medium	200	39.00	6.00
	Small	50	19.00	3.00
	Very small	20	4.00	0.60
	Micro	5	0.20	0.10
Wholesale Trade, Commercial Agents and Allied services	Medium	200	64.00	10.00
	Small	50	32.00	5.00
	Very small	20	6.00	0.60
	Micro	5	0.20	0.10
Catering, Accommodation and	Medium	200	13.00	3.00

Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)	Site or Class	Total full-time equivalent of paid employees (Less than)	Total annual turnover (Rand million) (Less than)	Total gross asset value (fixed property excluded) (Rand million) (Less than)
Other Trade	Small	50	6.00	1.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Transport, Storage and Communications	Medium	200	26.00	6.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10
Finance and Business Services	Medium	200	26.00	5.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Community, Social and Personal Services	Medium	200	13.00	6.00
	Small	50	6.00	3.00
	Very small	20	1.00	0.60
	Micro	5	0.20	0.10

Source: The Department of Trade and Industry (2008)

1.1.3 Some of the South African Institutions Providing Finance to SMEs

The information presented in appendices on the institutions providing finance to the SMEs is reproduced from www.702.co.za since it is in a format that is suitable for the analysis in this document and any modification of the information would dilute the content and what is intended to be done with the information. The information in appendices provides a summary of each institution, kind of support provided and location based on the telephone number(s) provided. In this format one can determine where most institutions are concentrated and hypothetical speaking to assess the impact to be generated from such an arrangement. Below is just a list of the institutions, further information is in appendices:

Business Partners Limited; Commercial Banks; Khula Enterprise Finance; Small Business Growth Trust Fund; Izibulo SME Fund; Identity Development Fund (IDF); Enablis Acceleration Fund; Khula-Akwandze Fund; Anglo-Khula Mining Fund; Khula Credit Indemnity Scheme; Non-Bank Retail Financial Intermediaries; Communities Fund and Small Business Hub Programme and Small Business Hub network; Industrial Development Corporation - (IDC); South African Investment Network; Sasfin Private Equity; The International Tourism Marketing Assistance Scheme (ITMAS); African Contractors Finance Corporation (Pty) Ltd; Business Finance Promotion Agency (BFPA); National Youth Development Agency; National Youth Fund; and The Land and Agricultural Development Bank of South Africa (Land Bank).

The list is long and some were not provided. That does not necessary mean that the excluded ones are less important.

1.2 Research Problem

The current financing options are not benefiting most of the SMEs only a few are able to secure finance despite having some institutions which should be providing finance to them. The reason that stands out to be a cause for this challenge is high risk of the business and lack of collateral to cushion the risk. If collateral is the biggest obstacle there must be other ways to be tried to address the problem, also to have funds available not just to the few which are located next to the financial institutions but to the rest of the country. Other than banks most institutions are located too far from some people and mostly concentrated in the Gauteng Province of South Africa as per the information in the appendix. The telephone numbers that start with 011 and 012 are for the Gauteng Province, although some of the institutions are using numbers that start with 086 which is a shared call number but are located in Gauteng as well.

The SMEs may be classified so in terms of their size but their contribution to the economy should not be underestimated. The reasons provided to be the building blocks of their challenges should not be discouraging; instead more ideas should be brought forward. Various scholars, practitioners and interested groups have independently or jointly made their suggestions on what to be done to tackle the challenges. Whilst problems are perceived to be there, someone would always come up with a possible solution. In this research, the planned approach is more holistic since it covers not just what should be done but also how these will get to the SMEs. It is a comprehensive solution rather than a half or partly solution as mostly found in some suggested ideas. The reason for this is to close any loopholes that may be created by partly solutions. The information presented above and in

appendices has given an overview of the Small and Medium Enterprises in terms of their definitions, impact in the economy and description of some institutions which were set-up to provide finance to the SMEs. The problem statement is phrased in the following research questions:

- a) Which are the institutions geared towards assisting the SMEs?
 - i. What are their concerns about providing finance to the SMEs?
 - ii. How are they dealing with the issues of the SMEs?
- b) How to create funds for the SMEs?
- c) Is the current set-up accessible to everyone and if not:
 - i. What strategy to follow to distribute funds in order to have impact in the country?

The information in section 1.1, particularly sub-section 1.1.3 and appendices dealing with financial institutions are the starting base for the research in an attempt to respond to the research problem.

1.3 Purpose of the Research

The research is undertaken to make a contribution to funds available to the SMEs and for the new funds to be able to reach those who cannot have access to the current institutions as the results of what the study will reveal as the additional bottlenecks to those that have already been mentioned above. Although there are reasons stated for not providing funds to the SMEs as per the information in the introduction but it is dangerous not to unpack that to get a clear picture of the situation and current problems. The research unpacks the situation then provides a solution to the problem statement.

1.4 Research Objectives

The following are research objectives:

- a) To investigate the current challenges SMEs face in accessing finance.
- b) To identify alternative ways to generate funds for SMEs.
- c) To identify a better way to distribute the funds to the entrepreneurs.

1.5 Research Questions

The problem statement is phrased in the following research questions:

- a) What are the current challenges SMEs face in accessing finance?
- b) What alternative ways that exist to generate funds for SMEs?
- c) Are there better ways of distributing funds to SMEs?

1.6 Data Analysis

This is a qualitative research; hence qualitative approach is followed. There is some quantitative analysis based on the ideas to be generated by the researcher in order to determine the amount of money to be obtained from the list of possible options of sourcing the funds.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

An economy without the contribution of the Small and Medium Enterprises is unimaginable. The SMEs are believed to be the main environment for job creation whether in a formal or informal sector. In a study conducted by Muritala, Awolaja and Bako (2012) it reveals that the SMEs have noticeable impact on various aspects including utilisation of local resources; job creation; facilitation of rural development; promotion of entrepreneurship; and partnerships with big industries, among others. The study further states that the SMEs are the backbone for development in general and are more efficient as compared to other businesses. This could be attributed to less complexity of the structure of the SMEs; hence the optimisation of processes could be much simpler than for other businesses, assuming the same level of competency of the operators or owners of the businesses for comparison purposes.

After covering such an impressive impact induced by the SMEs, one would expect that they receive more attention and take priority regarding finance. If this statement was correct, there would not be an outcry for finance.

Moving from the business operations' point of view to financial support. According to Small Enterprise Development Agency (SEDA) (2011 / 2012); their four main focus areas are: *increasing the number of Seda-supported business incubators to facilitate the more successful entry of small businesses into the market; working with cooperatives and large scale projects, especially secondary cooperatives to harness local resources and help communities become self-sustainable, especially those in rural areas; increasing assistance to the more established and sophisticated small and medium enterprises to improve their capacity to create employment; and developing and implementing interventions for small enterprises in key economic growth or priority sectors.*

Having mentioned the above information, generally speaking, it would be complete to know whether the unfunded projects are mainly non-priority projects or not. In other words is the focus of entrepreneurs more on non-priority projects, hence lack of access to funding. Ideally the information in the literature review should provide some information on this matter where possible; but it seems that it is hardly mentioned, other than in the Industrial Development Corporation interview with the journalists, which is included in later Chapters of this report.

2.2 Literature

In gathering information on literature review it was felt that instead of focusing only on financing of the SMEs, one should also cover other financial issues which will come handy in developing the implementation strategy for the funds. For that reason the literature review covers more than expected.

A lot has been said about the challenges faced by the SMEs, not necessarily in South Africa but throughout the world. It seems that this is a global issue rather than a South African one. In an attempt to devise means to assist the SMEs certain areas have to be presented first to give a clear and complete picture of the situation rather than just jumping into a conclusion or recommendations.

This section looks at what is being said about the SMEs. Relevant information from various sources is presented to show different coverage of this business in terms of the registered businesses under this category; funds administered by one of the financiers the National Empowerment Fund; it looks at the study commissioned by the National Credit Regulator; it covers the stance of the Department of Trade and Industry; the position of the Banking Association South Africa; and the supplementary information on the SMEs. Generally, in most cases there is also high expectation for government to inject funds where or when there is a problem in a country as if there is sufficient revenue in government. It is against this backdrop that tax revenue is also covered in this section to give a high level view of the tax structure which is also covered under discussion in Chapter Seven. The section is closed with part that covers ideas directed towards assisting the SMEs.

2.2.1 Registered SMEs

To get a feel of the number of registered small, medium and micro-enterprises (SMMEs) in South Africa, we refer to the information contained in Table 2 below, which is sourced from the Foundation for African Business and Consumer Service (n.d.). The information covers the period from year 2004 to 2007.

Table 2: Registered SMMEs in South Africa

Registered SMMEs	2004		2007		Change
	Number	%	Number	%	%
Micro	212,161	49.8	200,377	36.2	-5.6
Very Small	170,338	39.9	251,920	45.5	47.9
Small	32,397	7.60	63,193	11.4	95.1

Registered SMMEs	2004		2007		Change
	Number	%	Number	%	%
Medium	6,748	1.58	20,750	3.75	208
Total SMMEs	421,644	98.9	536,240	96.8	27.2
Large	4,596	1.07	17,251	3.12	275
Total SA	426,240	100	553,491	100	29.9

Source: The Foundation for African Business and Consumer Service (n.d.)

The results of small and medium enterprises which are focus of this study show an increase in the number of businesses from year 2004 to 2007. For these businesses to be able to operate, some kind of funding regardless of the source should exist, hence it can be generally stated that the availability of some kind of funding has enabled the percentage increase of the SMEs in South Africa from year 2004 to 2007. Despite the increase in the number of registered SMEs recorded up to year 2007, beyond this period various people have shown some unhappiness on the lack of access to finance. This becomes clear in subsequent sections of the research which is explained by the attempts made to improve the situation.

2.2.2 Funds Administered by the National Empowerment Fund

For the purpose of this research only the information from the National Empowerment Fund (2012) is used in detail to explain the nitty-gritty of financing the SMEs. According to the National Empowerment Fund (NEF) (2012), finance provided is in the category presented in Table 3 below. The category presented below provides information on how much funds can be provided for a particular business and at what stage of business cycle.

Table 3: NEF funding products in detail

Product / Fund	Description	Funding Amounts
Entrepreneurship Finance	For starting a new business	R250 000 – R10 million
Procurement Finance	For tenders and contracts	R250 000 – R10 million
Franchise Finance	For pre-approved franchise licenses	R250 000 – R10 million
Acquisition Finance	For black investors acquiring a stake in medium to large companies	R2 million – R75 million

Product / Fund	Description	Funding Amounts
Expansion Capital	For growing an existing business	R250 000 – R75 million
*New Ventures Finance	Participation in green-field projects	R5 million – R75 million
Capital Markets	Listing on the JSE or its junior Altx markets	R2 million – R75 million
Liquidity and Warehousing	The NEF has Black Facilitator status, which can help black shareholders and companies wishing to sell a stake while keeping the shareholding black.	R2 million – R75 million
*Rural and Community Development Fund	For agri-processing, tourism, mining & beneficiation, manufacturing etc	R1 million – R50 million
*Strategic Projects Fund	Venture-capital fund investing in early-stage projects for the purpose of developing strategic industrial capacity in poverty nodes, in renewable energy, business process outsourcing, tourism, manufacturing, mining and mineral beneficiation etc.	R1 million – R75 million

Source: National Empowerment Fund (2012)

Different institutions would use different criteria to screen the applications submitted for request of finance. To be considered certain requirements have to be met. As far as the National Empowerment Fund (2012) document is concerned, it specifies that it scrutinises the percentage of black ownership; women ownership; composition of management; proposed business potential; job opportunities envisaged; and investment return, among others. Since the NEF was established it has managed to support businesses to the value of R3.7 billion; about 233 SMEs have been supported; 7 rural communities have benefited; 29 000 job opportunities created; and 21.9% of women ownership.

2.2.3 A study on SMEs Commissioned by the National Credit Regulator

In a study commissioned by the National Credit Regulator (2011) on literature review on small and medium enterprises' access to credit and support in South Africa, it reveals the information presented in Table 4 below on financial gap.

Table 4: Financing gap in terms of SME numbers

Description	Number of SMEs			
	FinScore (2010)	Survey	Stats SA LFS (2007)	Label
Total SMEs	5 979 510		2 432 000	A
Registered SMEs (Formal): 17.3%	1 034 455		420 736	B
Ave applying for a loan: 84.4%	873 080		355 101	C
Ave loan application success rate (Formal): 33.2%	343 439		139 684	D
Those who receive funds after successful appl: 27.3%	93 759		38 134	E
Financing Gap (C-E)	779 321		316 967	F
Total Informal: 41.8%	2 334 439		1 016 576	G
Less: Informal served (15.3%)	357 169		155 536	H
Total Financially Excluded (G-H)	1 977 270		861 040	I

Description	Number of SMEs		
	FinScore (2010)	Survey	Stats SA LFS (2007) Label
Total Financing Gap (Formal and Informal): F+I	2 756 591	1 178 007	J

Source: National Credit Regulator (2011)

The synthesis of the above mentioned information as derived from the report, stipulates that:

SA has between 2.4 to 6 million SMEs. Around 20% of these SMEs are registered with Companies and Intellectual Property Commission (CIPC) 2 and have a bank account. Of the formal SMEs, less than 100,000 (27.3%) successfully apply and receive funds from the formal financial sector. Almost half of the SMEs are not registered hence are operating informally. Owing to their informality, most (84.7%) of them are financially excluded. That is, they do not have access to the formal financial markets. Thus, the total financing gap (both formal and informal SMEs) is estimated at around 45-48% of all SMEs in South Africa.

The National Credit Regulator (2011) cites that despite the existence of both public and private sector financing agencies there is financing gap which is attributed to lack of information of existing financing institutions and possible financing options; few programmes supported by the banks; misalignment of proposed and targeted businesses; not meeting minimum requirements; structural challenges posed by the formation and focus of banks which is less to the SMEs; inflated interest rates charged by the lending institutions; lack of business know-how of the SMEs owners; and lack of proper planning.

The concluding remark of the literature review study commissioned by the National Credit Regulator is that despite the high number of institutions established to provide credit to the SMEs, there is no definite answer that can be provided regarding the financing gap due to lack of detailed information from literature. The study report sees a need for further investigation to:

- a) *Identify the specific needs of the SME sector when it comes to financing and*
- b) *Whether the financing available meets those needs in terms of both “quantity” and “quality”.*

The report further states that there is no need for policy review to increase the amount of credit offered instead revisit the products offered to meet the needs of the SMEs. And further indicates that if there is no sufficient funding, government can increase this through the National Youth Development Agency, Khula and other Government owned institutions. The four main recommendations of the report are centred towards registration of the SMEs; capacity building; new government institutions to deal with the SMEs; and regulator monitoring of the implementation of the programmes for the SMEs.

2.2.4 The DTI's Proposed Funding for SMMEs in South Africa

One of the institutions that is expected to make presentation in Parliament on the latest development of the Small, Medium and Micro-Enterprises (SMMEs) is the Department of Trade and Industry. In their presentation, the Department of Trade and Industry (n.d.) hinted that the target market for government direct lending consists of SMEs in remote areas; initial stages of businesses; providing working capital; businesses owned and operated by blacks in particular women

The current challenges are attributed to the fact that the Development Finance Institutions adopted a wholesale approach which has no optimal impact; funds not reaching remote areas; commercial banks not taking risk mitigation products; lack of collateral by the SMEs; and lack of finance for early stage businesses (The Department of Trade and Industry, n.d.).

To address the above mentioned challenges, Khula Enterprise was geared towards offering direct lending in order to minimise the existing financing gap and to address the issue of market failure without closing the lending opportunities from the commercial banks (The Department of Trade and Industry, n.d.).

2.2.5 The Banking Association South Africa's View of the SMEs

To have most views from different stakeholders on the challenges faced by the SMEs in securing funds, it was felt that a preliminary desktop study as part of the research would shed some light. This is important since the banking sector is mostly blamed for not supporting the SMEs financially and otherwise, therefore the information gathered would give direction to be taken for the research.

The Banking Association South Africa (2012) speaking on behalf of the banks in South Africa stated that the role played by the banks in the development of the SMEs is attributed to the greatest exposure to the SMEs in year 2009 which is approximately 95%; financing of SMEs amounting to R11.4 billion from year 2004 to 2008 which far exceeds a target of R5

billion; collaboration effort with various structures of government; and providing non-financial support, among other things done.

The Banking Association South Africa did not just mention figures indicating impact of the role played by the banks in the development of the SMEs but also provided evidence in terms of initiatives that have been made to assist the SMEs which covers cooperation agreements, financial training, drafting of charters; and research aspects. The information provided was further supported with information pertaining to challenges faced by the commercial banks in lending support to the SMEs and the reasons provided cover the fundamental drive for commercial banks to be in operation which is profit making; and impact caused by the definition of the SMEs, which leads to a certain view.

The survey conducted on behalf of the banks shows that the challenges are attributed to the fact that:

- a) Successful financing greater among SMEs with higher turnover*
- b) Small SMEs require greater ancillary support*
- c) Financial Intermediaries (FIs) working with model that is not totally appropriate for market of largely previously disadvantaged entrepreneurs*
- d) Need for FI's to develop more risk appropriate evaluation models and products tailored to this market segment*

The proposal put forward to deal with current issues as thought appropriate by the Banking Association South Africa is addressing:

- a) **Products and Services** – review of guarantee funds, ability to call on collateral, review credit assessment tool/approach, develop SME specialists, designate SME champion, reconstitute credit committees, minimise approval turn-around time, provide mentoring, develop “real” SME products
- b) **Business Development Support** – establish accreditation and grading of BDS, create panel of BDS experts, set industry-wide BDS standards, professionalised sector, develop generic SME financial literacy course, develop online, open-source and interactive learning, training needs assessment.
- c) **Policy and Regulation** – identify inhibiting regulations and laws, RIA, promote “one-stop” reporting on SME statistics, lobby to prevent regulation ‘overload’, support the creation of SME Ministry or SME Champion

- d) **Knowledge Management** – unify existing advocacy groups -BUSA SME policy committee, facilitate setting up of SME forum, design and develop SME portal and data repository, research and knowledge sharing.

One can see from the above information that the Banking Association South Africa is acknowledging the current problems and puts proposals to deal with the challenges with hope to make an improvement in the current system.

2.2.6 Supplementary Information

One of the points that usually comes out is that the SMEs are given high interest rates due to their association with high risk. The Business Partners (n.d.) established that:

Most SMEs can't pay more than the prime interest rate plus 10% (as an IRR to an investor) for their funding.

The margins on an SME risk finance portfolio may be unexciting:

IRR	-	19% (P = 9% in S Africa)
Less: Costs	-	7.0%
Bad debts	-	3.0%
Cost of capital	-	7.5% (P – 1.5%)
Yield to investor (ROE)	-	1.5% (before tax)

The information provided in Table 4 above gives indication of successful loan applications which is far higher than applications that received funds. As a speculation linking to the information provided by the Business Partners, one would think that maybe one of the causes for the drop in the number of applications that receives funds is attributed to unattractive interest rate. The actual answer can be gathered from further investigation into the matter.

There has been a call to form a Development Finance Institution (DFI) for the SMEs. How We Made It in Africa (2012) states that the SMEs DFI will unlock funds to help stimulate the economy since most people do not have access to “*traditional financial systems comprising banks, insurance companies, and stock and bond markets.*” It further states that “*it is critical to develop programmes and schemes that will assist in financing these supposedly risky, but extremely important, businesses in the economy.*” This call is emphasized by the statement made by the Development Bank of Southern Africa (DBSA) on their role with the SMEs. The Development Bank of Southern Africa (2012) stated the following regarding the SMEs:

- a) *Although SMME not direct mandate of DBSA, the Bank facilitates SMME development through, amongst others the development fund; jobs fund; accelerated school infrastructure development initiative; and rural economic development initiative.*

The DBSA's targets for three years are given in Table 5 below.

Table 5: Preliminary targets for three years

	Expenditure (R mil)	Co-Funding (R mil)	Number of Projects	Sustainable job created	Net income added (R m a year)
Enterprise development	3 500	7 000	700	100 000	1 500
Infrastructure Investment	4 000	2 000	250	20 000	400
Work-Seeker Support	1 000	500	200	20 000	400
Institutional Development	500	500	200	10 000	200
Total	R9 000m	R10 000m	1 350	150 000	R2 500m
Operational overview (as at 31 March 2012)					
Applications received			2 651		
Grant funding approved			R1,835 million		
Matched funding			R1,739 million		
Total project value			R3,574 million		
Projected jobs			186 238		

Source: The Development Bank of Southern Africa (2012)

2.2.7 Tax Structure in South Africa

This section is to give information on how government revenue is generated. It is important to have this section in order to be able ascertain where money will come from to establish

the Development Finance Institution for the SMEs if that is indeed an option or to raise additional funds for the SMEs if the current financial institutions do not have sufficient funds to meet the demand. One way or another there should be some kind of funds to be raised to make that possible.

Government has got different roles to play in the country these include facilitating better social welfare of its citizens or residents, ensuring safety and security, stimulating economic growth, and enforcing compliance with applicable legislation both nationally and internationally, among others. Almost all of these require more money for each one to be implemented effectively and efficiently.

Food and products sold in the country are subject to tax, businesses have to register and be subjected to tax, people employed in the formal sector have to pay something if they fall under a particular category. Services provided are also subjected to tax, properties owned by individuals and many other things are subjected to tax. The rationale for tax is for government to be able to meet the needs of the country and to bring about service delivery at an acceptable level. To meet the needs of million citizens would require trillions of South African rands per year, hence the need to have a mechanism in place that would ensure that there are funds in place.

As much as people are expecting government to deliver on certain promises made or just expectations of what government should do for the country it happens that most citizens are sensitive to tax they are subjected to. The overall feeling is that there is too much tax to be paid for but the reality is that there are so many services to be provided at huge expenses. The Joint Standing Committee on Finance (JSCOF) on the third interim report of the Katz Commission of inquiry into taxation believes that tax should not be viewed as a bad thing to the economy but to raise revenues to assist with economic growth and development; and fund the socio-economic programmes carried out as part of the redistributive function of government.

Taxes in South Africa come in different forms. There are those administered by the South African Revenue Service and those administered by government authorities.

The South African Revenue Service taxes are air passenger tax, capital gains tax, diamond export levy, donations tax, estate duty, excise duty, income tax, pay as you earn, provisional tax, retirement funds tax, skills development levy, stamp duty, transfer duty, uncertificated securities tax, unemployment insurance fund, value added tax (VAT) and others.

2.2.8 Alternative Financing Models in the Eyes of the World

There is no scientific approach that was used to select the following pieces of information on alternative financing models. The readily available information was used.

The issue of lack of finance for the SMEs is experienced globally. The Daily Star (2011) is reported saying that the growth of the SMEs in Bangladesh is restricted by the non-availability of finance. It is stated that the Financial Institutions are not meeting the needs of the SMEs as the result are underserved. The challenges faced by the SMEs in Bangladesh are addressed using the following options:

Expansion of financing for SMEs in Bangladesh involves two critical components. First, it requires a re-thinking of alternative financing structures that provides the type of capital that can facilitate growth of SMEs. Second, it involves the development of alternative financial institutions that have the core competencies in supporting SMEs.

The following is the breakdown of things to be done to assist the enterprises:

Mezzanine financing, which has the characteristics of both debt and equity, offers a potential alternative structure for institutional capital for SMEs. The type of best suited mezzanine financing to SMEs in Bangladesh would have the following characteristics: (i) not secured by fixed asset collateral (ii) lower principal pay-down requirement, which may range from a deferral of principal repayment for the first year, to putting off the entire repayment until maturity (iii) fixed coupon payment during the investment period that can be accrued in case of cash flow constraint and (iv) variable coupon or premium payment at maturity, in the form of revenue or profit-share, which are tied to the underlying financial performance. This mode of financing can ensure that SMEs have sufficient capital during the critical phases of their growth, while providing an attractive rate of return to the investor.

An underlying reason for SMEs inability to access finance is the lack of a robust risk assessment and monitoring mechanism. Financial institutions lack the expertise to assess and the bandwidth to monitor the business risks of SMEs; these enterprises lack the reporting systems that can facilitate the risk assessment by FIs. Therefore, SMEs need specialised financial institutions that: (i) have the expertise in evaluating the fundamentals and financials of the business beyond simply assessing the quality of the collateral and (ii) can help develop the financial reporting systems of the SMEs post-investment to ensure proper monitoring. Such institutions must also recognise that providing the financing alone can neither maximise their own financial returns, nor achieve the growth potential of the SMEs. To this end, they must provide

advisory support, share best practices, implement financial controls and link the SMEs to broader markets.

Moro, Lucas, Grimm and Grassi (2010) argue that the debt equity mix is not appropriate for the SMEs but they propose the optimisation of debt mix as far as short and long terms are concerned. These researchers went further developing a mathematical tool to optimise the debt mix for long term / short term mix. The International Finance Corporation (2010) believes that global, regional and country specific facilities would have huge impact in the development of SMEs. It states that global and regional facilities go beyond the diversification of risks but also achieve a wider scale such as the European Fund for Southeast Europe, the Microfinance Finance Facility for Sub-Sahara Africa. It is further stated that effective coordination is needed which has led to the proposed establishment of Global Partnership for Financial Inclusion. The International Finance Corporation also calls for making use of competition to ensure the inclusion of the SMEs, the establishment of accounting and auditing standards, credit registries/bureaus, collateral, and insolvency regimes.

Accenture (2011) warns that banks risk the emerging SMEs banking marketplace such as mobile payments and peer to peer lending. The World Bank (2011) is advocating the review of policies to assist the SMEs. The Organisation for Economic Co-operation and Development (2006) sees a big role to be played by government to address market failure by incentivising the private sector to provide finance to the SMEs. It also calls for the review of legal, tax and regulatory framework. Cui, Zha, and Zhang (2010) call for business incubation where *“physical space and infrastructure and a series of service support to reduce start-up costs and risk, improve the success rate of entrepreneurship and promote scientific and technological achievements, so the SMEs can develop and grow fast.”*

2.3 Conclusion

The information presented above has shown an increase in the number of the SMEs over the years. Despite the increase of the SMEs challenges are still there. If there were no challenges the number would be far higher than reported which would be good since the SMEs can only absorb a certain number of employees to be classified as such. There is a number of financing institutions which are providing finance to businesses including the SMEs. These are dedicated to certain businesses with funds allocated per business category. Each financial institution uses a certain criteria to decide on businesses to provide with funding. The study commissioned by the National Credit Regulator revealed a financing gap of 45% - 48% for both formal and informal sectors which is a big number. It is not that

the problems are not known, they are attributed to lack of information of existing financing institutions and possible financing options; few programmes supported by the banks; misalignment of proposed and targeted businesses; not meeting minimum requirements; structural challenges posed by the formation and focus of banks which is less to the SMEs; inflated interest rates charged by the lending institutions; lack of business know-how of the SMEs owners; and lack of proper planning among others. These challenges emphasise the need for an intervention mechanism, hence this research to explore alternative financing strategy for the SMEs in South Africa.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The main focus of the research is to explore a suitable strategy to assist the SMEs to have access to some kind of funds in order to address the current challenges facing them.

The literature review findings have shown clearly that there is so much that has been done in the area of the SMEs, hence the desktop research was seen as the best route to follow in order to address the current topic.

The information gathered does point out to the challenges and in some instances to the things that can be tried but what is lacking is the integrated approach to deal with the problem at hand. Life experience shows that disintegration of activities within the same value chain in most cases can lead to challenges of managing the situation. Against this backdrop this research attempts to address that.

3.2 Methodology

3.2.1 Development of a Financing Strategy

The idea of the strategy is to explore various sources which could be used to get funds to finance the SMEs in South Africa and the implementation thereof in a systematic way to close any loopholes created by the current practice of the financial institutions. The strategy looks at possible ways to reach as many SMEs as possible at the same time getting some kind of non-financial support to ensure their sustainability. This is to ensure that the failure rate of operating the business is reduced. It also looks at how best to mobilise the available resources for the benefit of the country in terms of economic development and job creation.

Having provided the above mentioned information it also makes sense to indicate how one ended up with the topic. By providing that information it will be easy to follow what the researcher is trying to do. Regular reports in media on the battle of the SMEs to secure finance from the financial institutions triggered the interest in the topic. It was then decided to gather more information on the reasons behind the rejection of the applications of the SMEs for finance. The literature review provided in this document goes into detail of current challenges. A number of studies have attempted to drill down to the current challenges and there was no need to try and gathered the information which has already been collected by

other researches. The researcher felt that it is not enough to understand the challenges but what is important as well is to explore things to be done in order to improve the situation. Based on the information gathered particularly on the SMEs it was then decided to follow the approach of exploring a financing strategy for the SMEs in South Africa.

The strategy is developed based on what the author sees as the possible solution rather than what others think will be the solution or reliance on their take for the proposed approach of which there is a high possibility to have different take on the matter if presented to different individuals. It is normal for people to have different views but it is uncalled for to reject someone's idea without any proof of failure for such a similar idea.

Different points were provided in the literature review to ensure that they serve as the foundation to develop the proposed strategy.

3.2.2 Research Design

Electronic media and newspaper articles on the SMEs are the main source for the researched information contained in this report. This is because it is easily accessible and there is a plenty of work that has been done regarding the SMEs.

3.2.3 Sample

The author for this report had rough ideas on what to be done to address some of the challenges faced by the SMEs. The reports or articles that contained information to be relevant to support the author's ideas were used in the literature review in order to be easy to reference it when an argument is discussed. To ensure that there is no biasness in the study, the information that provided conflicting results to the literature review was also included such as in the discussion, Chapter Seven, section 7.1. But an explanation was provided to justify the differences.

3.2.4 Method of Data Collection

No data was collected other than the information contained in the literature review. Instead a list of possible options to source the funds for the SMEs was provided by the author of this report. All ideas that came into mind were put down as per the information in Chapter four below. No data was necessary to collect as this is an exploration study, then the author decided to create data using different scenarios and ranges in order to calculate the funds to be generated, as per the information contained in Chapter five below.

3.2.5 Method of Analysis

The results from the calculations done were compared to the information provided in the literature review and additional information provided in the discussion, Chapter Seven, section 7.2, to test the reasonableness.

3.2.6 Assumptions

It is assumed that the gathered information is the true reflection of the situation of the SMEs in South Africa. Any other assumptions made are stated in the relevant sections for the intended objectives.

CHAPTER FOUR

EXPLORATION OF OPTIONS TO GENERATE FUNDS FOR THE SMEs

4.1 Introduction

This chapter is not sourced from anywhere unless that section or included part is referenced accordingly. A reference will be included to substantiate the idea put forward. This chapter is what the researcher perceives as the means to go about generating the funds for the SMEs. The sources will be broader because there is no limitation as to who will receive the funds, as long as the business falls under the category of the SMEs as per the definition used in South Africa. This chapter lays a foundation for the information to be provided in chapter five below. It is more of the chapter for generating ideas rather than looking for other people's ideas and putting them here. For that reason this chapter is not part of the literature review but could be linked to the information provided there.

It is a common practice that when a research or a study is done the results will be based on the observation or trend analysis or findings from the responses received from surveys, which means that the conclusion of the author will be influenced by external factors as gathered. This chapter is doing the opposite of that. In this case the author generates ideas for exploration, then perform various scenarios as explained in chapter five below, which would then be used for decision making.

Unavailability of financial resources is the major constraint to the development of less developed countries. Innovative ideas and solutions would be the answer to this challenge provided that there is a willingness among people to buy into these. In most cases human beings prefer an immediate win-win solution whilst there is a possibility to convert the immediate win-lose to a win-win solution in the medium to long term period. That is where the change of the mind-set will be required to deal with the reality of finance.

The following concepts are built on the above mentioned principles with the understanding that from the little that we have it can be used such that there is maximum benefit for the whole country. It is also understood that to lessen the burden the first selected options from the list of generating funds for the SMEs should be the less sensitive ones to smooth the process. If that happens to be successful after implementation, then it will serve as a testimony when the idea is explored further in the future.

4.2 Possible Sources of Funds

The information presented below is about some of the available solutions to generate funds for the SMEs in order to take them to the next level of growth which has been hampered by the lack of funds. Mentioning the alternatives without demonstration of how much can be collected and if it can make any meaningful contribution is not sufficient. For that reason in Chapter five below some calculations will be done using various scenarios and presented in graphs to demonstrate the idea. The information in this chapter is laying a foundation for what is coming. In other words what is coming in subsequent Chapters will use the information provided in this Chapter.

In trying to unpack some of the challenges as far as the taxes are concerned, the researcher uses his opinions which do not necessarily represent the views of the entire nation. That is solely done to trigger the thinking of the reader for this report, at the same time to develop a base to be used to remove the obstacles faced by the SMEs.

It is understood that there will be a whole lot of other things to consider before implementing any of the possibilities listed below. For the sake of not losing focus on what is presented, it will be assumed for now that any other issues that go with the suggestions will be well taken care of, for that reason there is no need for now to worry about any other issues.

4.2.1 Taxes

Nowadays when it comes into financing of infrastructure development, there are two words which people hope not to hear and these are tariff and tax. The word tariff scares most people because it means that if they are the users for that infrastructure it means that payment for it is expected. In some instances, even if you do not make use of the infrastructure you indirectly pay for it because of the multiplication effect such as in the liquid fuel and electricity industries. An example of the liquid fuel industry tariff increase is when the building of the petroleum pipeline to transport liquid products from point A to point B has to be financed by adjusting the tariff of an old but operational pipeline or an existing pipeline whose service life is about to expire or capacity constraint is about to be an issue. In other words the high tariff charged on one pipeline is used to finance the development of another pipeline for the same company which is the case in South Africa. Money received from tariff is used to repay debt created as the result of the construction. The same argument of an increase in electricity tariff is also similar to that of the petroleum pipeline although the sources of finances could be different. Again there is a similar electricity case in South Africa which people did not hesitate to criticise due to the foreseen impacts to the consumers and economy at large. It emerges that other prices adjust accordingly to compensate for the

increased operating costs. People do not like taxes simply because a portion of the money in their position is subject to applicable tax leading to the reduction of available money (disposable income) for that particular individual. The information of some applicable Taxes in South Africa where covered above in subsection 2.2.7.

Hypothetical speaking one would ask if taxes are bad to have or not. Without any need to do any survey on this question, logic tells us that taxes are not bad at all. If there were no taxes where would we be by now assuming that everything else is the same. Surely the country would be far backwards and there would be suffering unless there was no money at all or there was no development since the beginning of the earth and people continued with life as usual. The next question would follow as to what is the challenge if taxes are not the problem. One would answer by saying that what causes a roar is the amount of tax imposed per item and the manner that the collected revenue is used thereafter.

What all of these tell us is that what matters is the actual amount taken from the individual's available money, where the collected money is used, how that process is managed, the accountability for misuse and the tax collection period, among many other answers which address the concerns to the implicated citizens. From this statement one can deduce that provided that these points are addressed, there would be less resistance to tax since there will be no payment for the same thing that should have been paid in the past due to misallocation or misuse of funds.

The next question to address is which items to tax in order to generate the funds. That is addressed below.

4.2.1.1 Taxing Non-Basic Foodstuffs

In South Africa there are foodstuffs which are exempted from the Value Added Tax (VAT) of 14% which is currently applicable. These basic foodstuffs which are exempted from the VAT are listed by the National Treasury (n.d.) as brown bread, maize meal, samp, mealie rice, dried mealies, dried beans, lentils, pilchards/sardinella in tins, milk powder, dairy powder blend, rice, vegetables, fruit, vegetable oil, milk, cultured milk, brown wheaten meal, eggs and edible legumes and pulses of leguminous plants.

All non-basic foodstuffs can be subjected to a certain tax which encompasses the points mentioned in subsection 4.2.1 above. It is important to design the system to be as less sensitive as possible. Details on this will follow in Chapter Five of this report.

4.2.1.2 Taxing Luxurious Goods and Services

In this report luxurious goods and services refer to all goods and services whose acquisition is associated with lifestyle status or nonessentials which would not stop life if there were not opted for. Life will still continue because there are alternatives if these are not acquired such as buying of cars instead of using public transport; takeaways instead of grocery foods; movies at cinemas instead of home entertainment; and music concerts instead of home entertainment, among many others.

This has to be emphasised that even if the luxurious goods and service are taxed, this should be in a region that will make consumers less sensitive to the adjusted price, such that they will hardly feel the price difference. This added amount will vary from one item to the other depending on the actual price for that item. At the same time it will be pleasing to the contributor to see good use of collected funds, which is the reason for the chosen implementation strategy which will be discussed later on.

4.2.2 Once-Off Contribution

The researcher believes that each and every capable citizen has a duty to bring about economic growth of the country. Government alone cannot win the battle of development and better life for all. As a background, individuals always hope and welcome donations from other countries, but no one has ever asked where did that money which is donated comes from. Surely whichever country or international institution or company that decides to donate could use the same money to meet the needs of its country. There is no country that is immune from any challenges, but despite all of that money is still donated somewhere else. The same principle applies to everyone else that no matter how little or more money you have, from that there is a portion that can be used somewhere else to make a difference. It is not only rich people who should be persuaded to contribute something but it is everyone's role to do so. Everyone should have the mind and heart like that of donors.

This subsection is trying to instil that kind of mentality to everyone. Once-off contribution could be in the form of:

4.2.2.1 Once-Off Contribution from the Formal Workers

It cannot be denied that every cent counts to every worker. It is believed that if a certain once-off salary portion is taken from each and every formal worker the total amount could make a huge difference in the country, provided that there is a proper strategy to take care of everything else. At this stage it might not be very clear how this is possible, but the

subsequent chapters will demonstrate that. For now the ideas are just put upfront in preparation for what is coming.

4.2.2.2 Once-Off Contribution from the Companies

When things are dark we all use the term social responsibility to persuade companies to open up for any proposal put to them. Also individuals have a duty to play, companies usually play the major role in economic development and social responsibility. In most cases there is a willingness of companies to do something for the country in general. In this case it will be slightly different because of the intended objective and different strategy in place to manage the whole process which is an inclusive process rather than having segments which sometimes make it challenging to manage the idea.

Generally speaking, people always open up for promising ideas, and more so when those ideas are implemented and show some good results. Having said so, it means that with time more contribution is expected and more participation of companies going forward.

4.2.2.3 Once-Off Contribution from the Rich

People get hesitant to contribute when they fear that their contribution will not fall on good hands but the opposite is true when there is assurance that all will be well and there will be accountability afterwards. That is exactly the thinking behind the strategy to be proposed to finance the SMEs. In this Chapter just the ideas are presented without providing any further information on how everything will tie in together.

There is a big role to be played by those with sufficient financial resources which we always term them the rich people. Without any doubts as most of them are business people, one must be able to sell the idea to them to be able to buy into it.

4.2.3 Tariff

The word tariff is associated with payment for service rendered or for making use of an infrastructure such as paying for using a parking lot. The main focus for tariff here will be on parking not electricity and water or other sensitive items of which their increase becomes a hot debate since there is impact to the economy. It is known that electricity is an important input into the production processes; therefore the increase in electricity tariff affects the production costs, subsequently the prices of goods.

In this case the targeted parking lots are those associated with international airports since are the busiest and are more associated with life style, hence not a core element for survival

to induce anger and strikes to voice dissatisfaction. One has an option to use the available services or make alternative arrangements, such as being dropped/picked-up at the airport, or possibly make use of public transport such as buses, taxis/metered taxis, or train such as Gautrain at the OR Tambo International Airport in Johannesburg.

The current practice is that anyone using a parking has to pay something and the amount to be paid is determined by the length of time of using the space. This report is suggesting that a certain portion of the parking fee should be allocated for the funds towards stimulating the economic activities of the SMEs.

4.2.4 Road Traffic Fines

Year in and year out the law enforcers are having a challenge to get road users (in this case drivers) to comply with the applicable legislation. A number of accidents are reported especially during holiday seasons or over the weekends of which some are due to none compliance. Other than accidents, some offenders get caught by the law enforcers and get charged for none compliance.

None compliance could be as the result of exceeding the allowed speed limit; driving under the influence of alcohol; driving none roadworthy vehicle; and driving without the necessary applicable documentation, among many others.

This report is by no means supporting offences made by the road users in order to generate funds; instead it is saying that for those who are not complying should contribute something in a form of a fine towards nation building, in this case towards the funds to be used to support the SMEs. The fines will have a portion to be allocated to the SMEs.

4.2.5 Gambling

Over the years in South Africa we have seen a number of new casinos being built, this could be attributed to a high demand for the gambling places or the increase in the number of people who are willing to spend their money in hope for hitting a jackpot.

Gambling in formal or structured places takes different forms. Some people go to horse racing courses such as the famous Durban July which is held every year in the City of Durban in the beginning of July on a Saturday. This is a glamorous event which attracts rich people and celebrities.

There is another form of gambling called Lottery, where you choose certain numbers for a draw to be made on a certain date. The Lottery draws in South Africa are every Wednesdays, Fridays and Saturdays. Currently the Department of Trade and Industry in South Africa is looking for the country's third national lottery operator. The licence will be effective from 01 June 2015 for period of seven years. Buthelezi (2013, p.15) reports that the revenues to be generated will be as follows:

- *Lottery sales to generate R40bn during that period.*
- *About 46% of revenue generated from Lottery sales goes to prize payments.*
- *Currently, 34% of revenue generated from Lottery sales goes to NGOs.*
- *State to continue holding 20% stake in National Lottery through its entities.*

All of the above mentioned gambling options could be used to generate some funds for the SMEs.

4.3 Conclusion

This chapter was solely included to provide a list of available options to obtain the funds to assist with the running of the SMEs. The information of which is used in Chapter Five to estimate how much each option would be able to generate towards the funds. It was never a scope of this research to drill down to the impacts and consequences that would result should each option be implemented. This Chapter is for ideas of possible sources of funds, but there is a space for anyone interested in the information provided to explore further the concepts presented here, with the intention to unpack the situation.

Whether some or all of the options put here would not work is not an issue, what is important is that as a country we should look at possible options to revitalise the system setup to assist the SMEs to have access to the funds. That is exactly what this Chapter is trying to do, to say what are some of the available options to deal with the current situation which is hindering economic development and creation of job opportunities as the current level of unemployment in South Africa is high and a number of graduates are not employed.

In closing this Chapter, it is clear that all what is proposed to be the source of funds is locally focused without sophistication in place. That is done purposely to develop the culture of none dependence from other countries or foreign donations. This is encouraging to use what is existing in the country without being tied in some conditions which might be unfavourable in the long run if any. The idea is to look at a bigger picture provided that there is clear road

map to success, instead of suggesting incomplete solution which could lead to conflicting results when trying to fuse ideas from different individuals with a different purpose.

The list provided here is not exhaustive but it was felt that for now what is provided here is sufficient to take the idea forward. The list can always be expanded on when there is a need to do so.

CHAPTER FIVE

SCENARIO PLANNING FOR THE GENERATION OF FUNDS

5.1 Introduction

This chapter is referred to as scenario planning for the generation of funds because it explores different avenues which could be used to generate funds by estimating the contributions that will come from each source.

This chapter makes use of some of the information provided in Chapter Four above to demonstrate different options for possible future implementation as a mechanism to bring about a change to the challenges faced by the SMEs in South Africa. It is important to mention that this report is not saying in any-way that the current systems in place for the SMEs should be done away with; instead it is providing supplementary structures to lift the weights off the existing ones. Possibly would offer the current SMEs system the opportunity to optimise their business models used.

To demonstrate how each option can work, this will be done per option since scenarios will differ from one option to the next.

5.2 Contributions of the Available Options

This section looks at the options presented in Chapter Four above, and determines the amount of money that will be available towards securing funds for the SMEs and having a user-friendly system to access the funds without using the stringed rules which currently are not in favour of the SMEs.

5.2.1 Taxing Non-Basic Foodstuffs

It is not the purpose for this research to exhaust the list of non-basic foodstuffs, but the intention is to demonstrate an idea. For the purpose of demonstrating the idea only two items will be used and these are drinks (alcoholic and non-alcoholic) and sweets sold in the country.

To summarise the results of the different scenarios, graphs were plotted. Figure 1 shows the output of the number of bottles of drink sold. Please note that in this case, bottles refer to glass or plastic bottles from 500ml upwards.

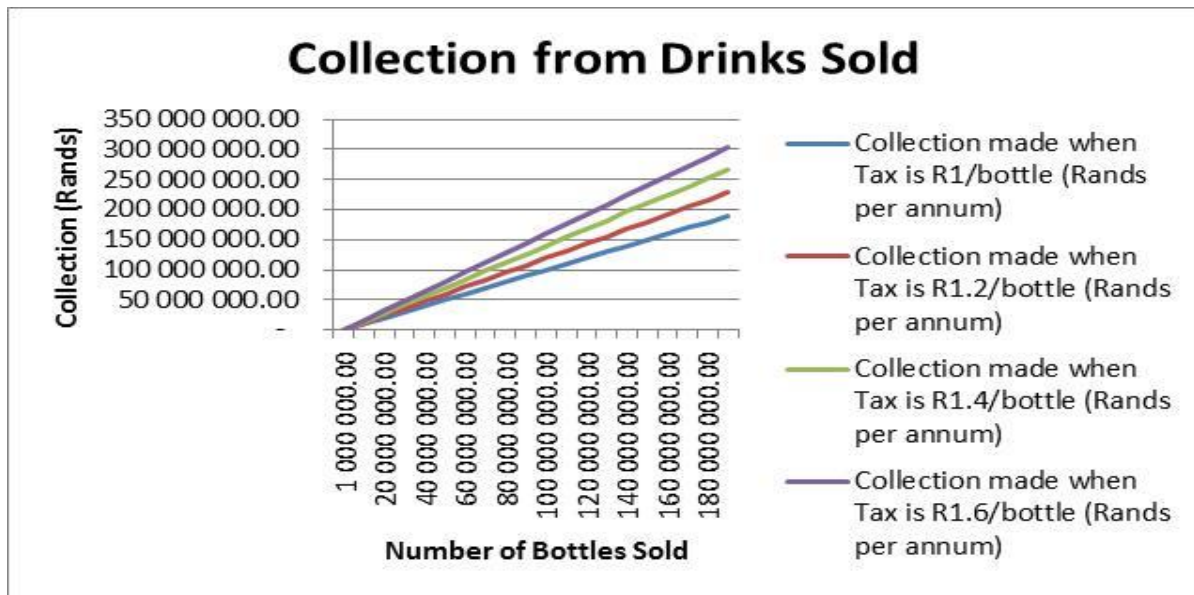


Figure 1: Four scenarios showing collection to be made from the number of drinks sold

Tax differs as indicated per line graph, hence different collection amount when the number of bottles sold is the same. The results are summarised as follows:

- When Tax is varied from R1 to R1.6 per bottle sold, and
- the number of bottles sold ranges from 1 million to 200 million, then
- the collection will be between R1 million and R320 million per annum.

Figure 2 below, shows the results generated as you vary tax per packet or slab of sweet sold.

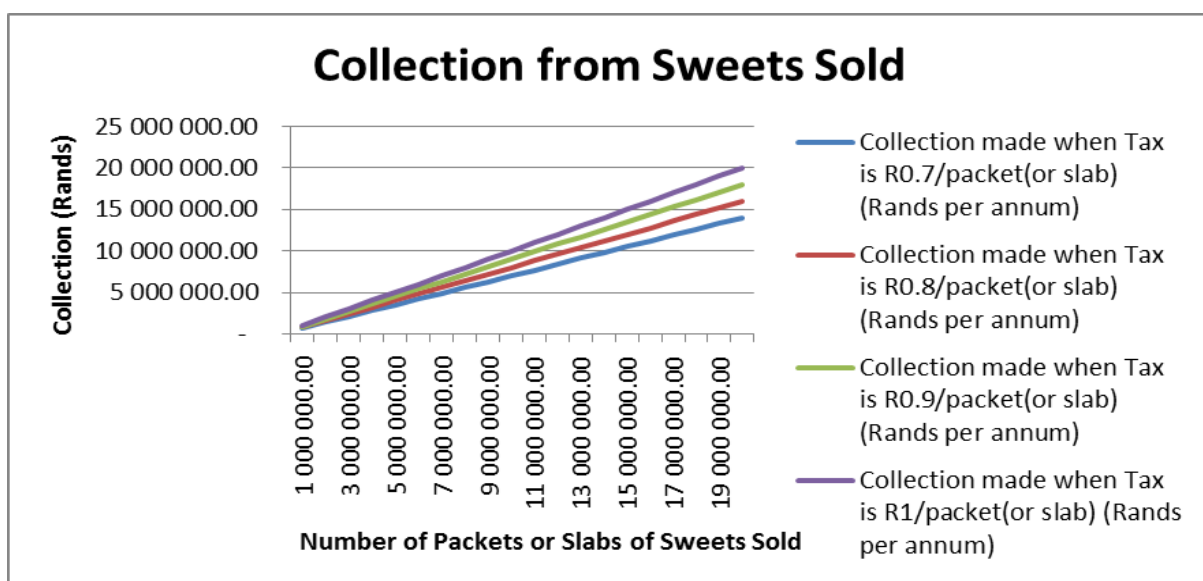


Figure 2: Four scenarios showing collection to be made from the number of packets or slabs of sweets sold

Tax differs as indicated per line graph, hence different collection amounts when the number of packets or slabs sold is the same. The results are summarised as follows:

- When Tax is varied from R0.7 to R1 per packet or slab sold, and
- the number of packets or slabs sold ranges from 1 million to 20 million, then
- the collection will be between R0.7 million and R20 million per annum.

If both items are implemented, the minimum amount to be derived is R1.7 million and the maximum is R340 million assuming that the ranges used to do the calculations are correct.

5.2.2 Taxing Luxurious Goods and Services

Here two luxurious items have been identified for scenario planning purposes and these are cars and takeaways.

In this case cars refer to all legally sold cars using a formal structure where it has to be registered under the name of the owner whether the car is a new or a used one. Takeaways refer to fast-food where one has an option to sit down and eat the meal or take it away.

Figure 3 below, shows four scenarios output for the number of cars sold when tax applicable for contribution to the SMEs is varied from R25 per car to R100 per car sold.

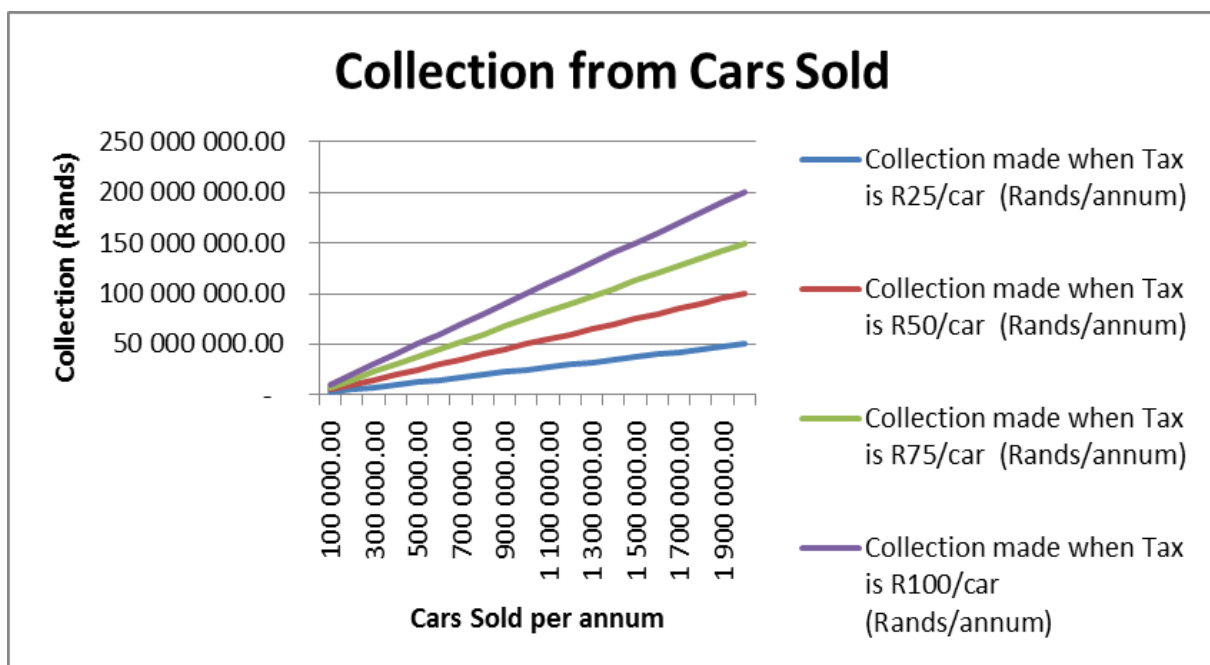


Figure 3: Four scenarios showing collection to be made from the number of cars sold

The results are summarised as follows:

- When Tax is varied from R25 to R100 per car sold, and
- the number of cars sold ranges from 0.1 million to 2 million, then
- the collection will be between R2.5 million and R200 million per annum.

Figure 4 below, shows the collection to be made for takeaways sold per annum at different tax rates applicable for contribution to the SMEs.

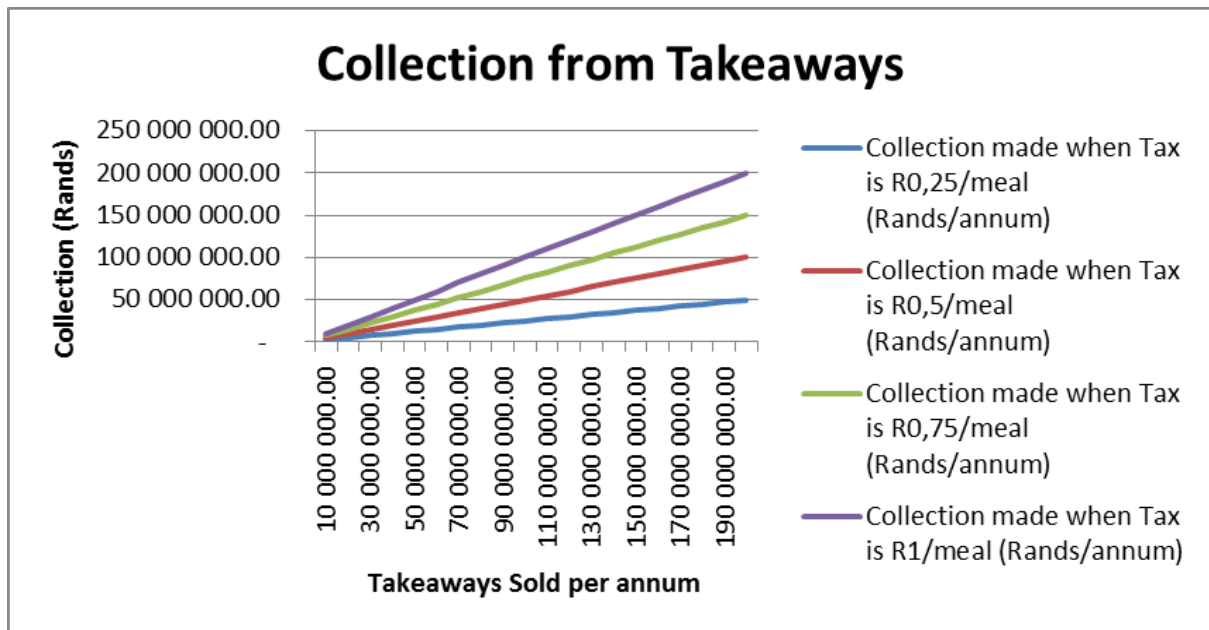


Figure 4: Four scenarios showing collection to be made from the number of takeaways sold

The results are summarised as follows:

- When Tax is varied from R0.25 to R1 per takeaway sold, and
- the number of takeaways sold ranges from 10 million to 200 million, then
- the collection will be between R2.5 million and R200 million per annum.

Based on the two items used for luxurious goods and services, the minimum that can be derived from tax is R5 million and the maximum is R400 million provided that the ranges used are correct.

5.2.3 Once-Off Contribution

The three items under this category are contributions from formal workers, registered companies and rich people. Formal workers refers to workers receiving a salary and who are registered for pay as you earn tax as administered by the South African Revenue Service. Rich people refers to people with cash of at least R5 million.

Figure 5 below, refers to collection received from the formal workers paid in lump sum or equal payments over 12 months as would indicate an employee from the available list of periods the preferred deductions of the salary.

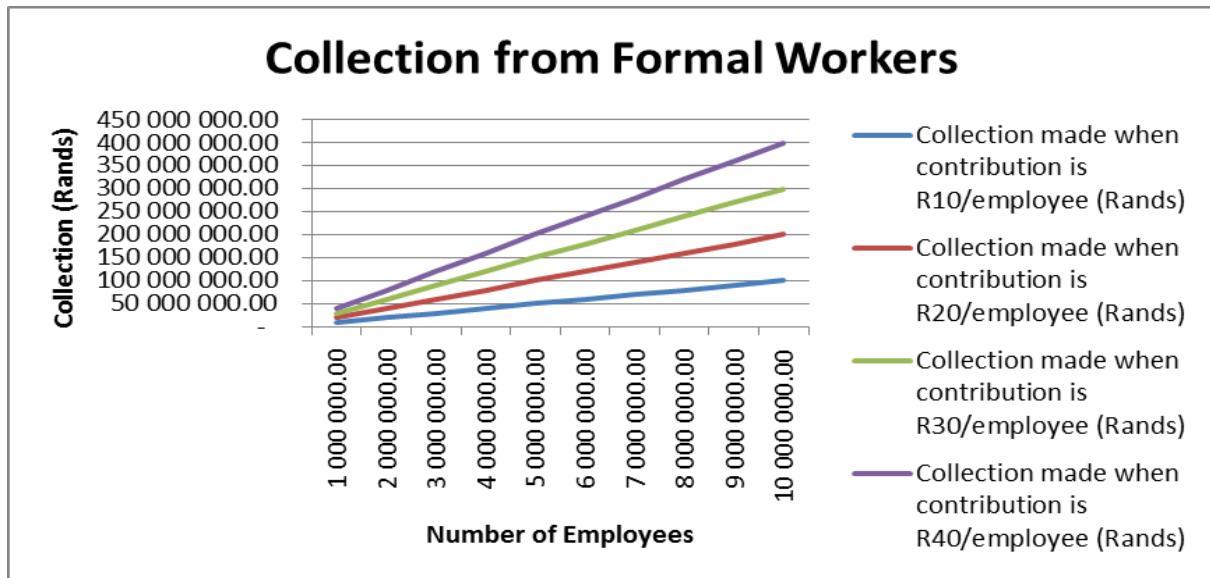


Figure 5: Four scenarios showing collection to be made from the formal workers

The results are summarised as follows:

- When Tax is varied from R10 to R40 per worker, and
- the number of workers ranges from 1 million to 10 million, then
- the collection will be between R10 million and R400 million.

Figure 6 below, refers to collection from the registered companies operating in the country.

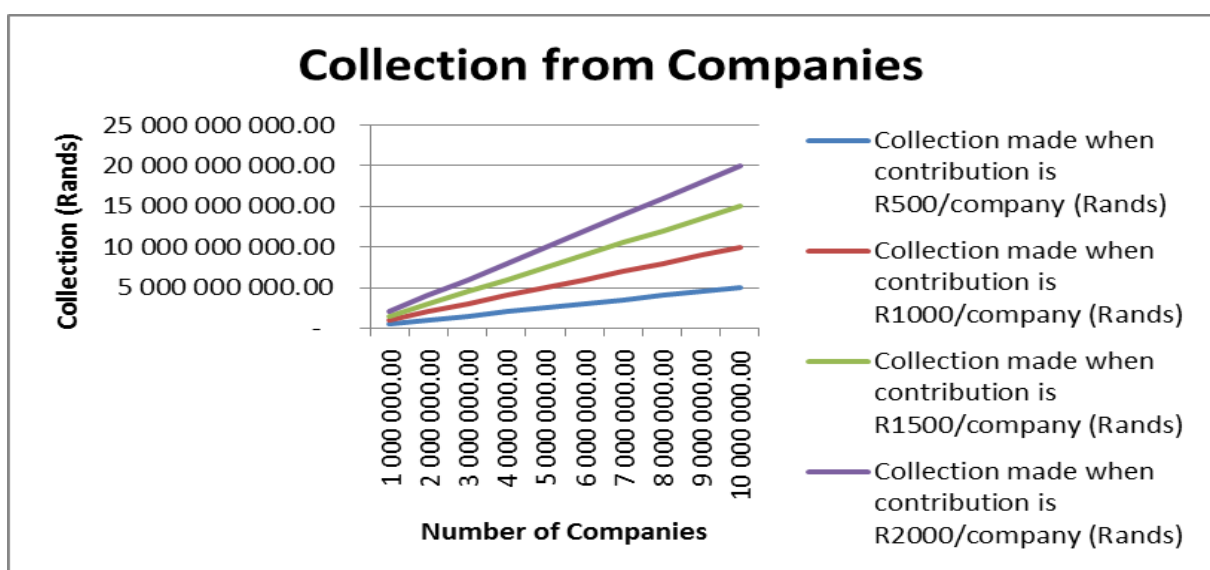


Figure 6: Four scenarios showing collection to be made from the registered companies

The results are summarised as follows:

- When Tax is varied from R500 to R2000 per company, and
- the number of registered companies ranges from 1 million to 10 million, then
- the collection will be between R500 million and R20 billion.

Figure 7 below, refers to collection from the rich people in the country who would be taxed once-off in order to generate funds to assist the SMEs in the country.

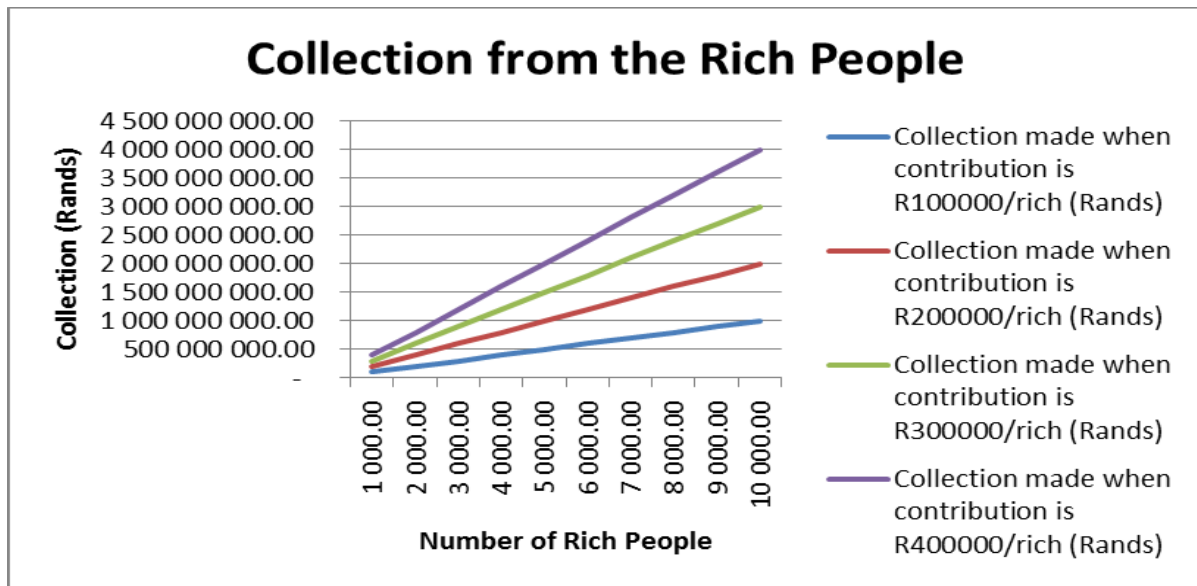


Figure 7: Four scenarios showing collection to be made from the rich people

The results are summarised as follows:

- When Tax is varied from R0.1 million to R0.4 million per rich person, and
- the number of rich people ranges from 1000 to 10 000, then
- the collection will be between R100 million and R4 billion.

Based on the three items under the category of once-off contribution, the minimum amount to be generated is R610 million and the maximum is R24.4 billion, assuming that the ranges used are correct.

5.2.4 Tariff

The tariff will be applicable to all international airports in the country regardless of parking time. Figure 8 below, refers to collection from all cars parked in all international airports in the country collected over a period of a year.

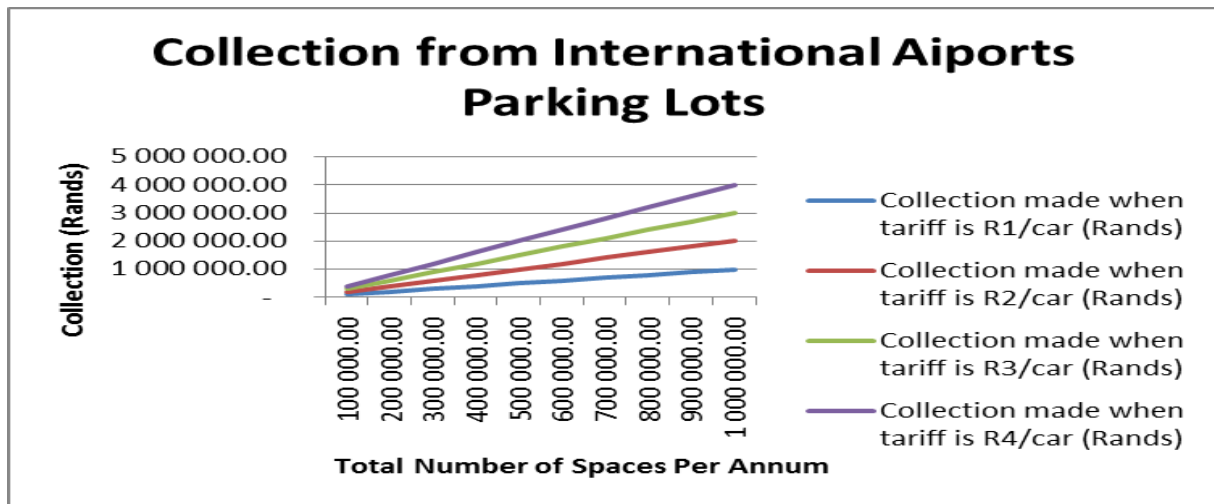


Figure 8: Four scenarios showing collection to be made from the international airports

The results are summarised as follows:

- When Tariff is varied from R1 to R4 per car parked, and
- the number of cars ranges from 0.1 million to 1 million, then
- the collection will be between R0.1 million and R4 million.

The minimum to be collected is R0.1 million and the maximum is R4 million, assuming that the range used is correct.

5.2.5 Road Traffic Fines

All road traffic offences are grouped under this category and will each contribute an equal amount towards the funds of the SMEs regardless of the seriousness of the offence. Figure 9 below, shows collection from all the offences committed in one year.

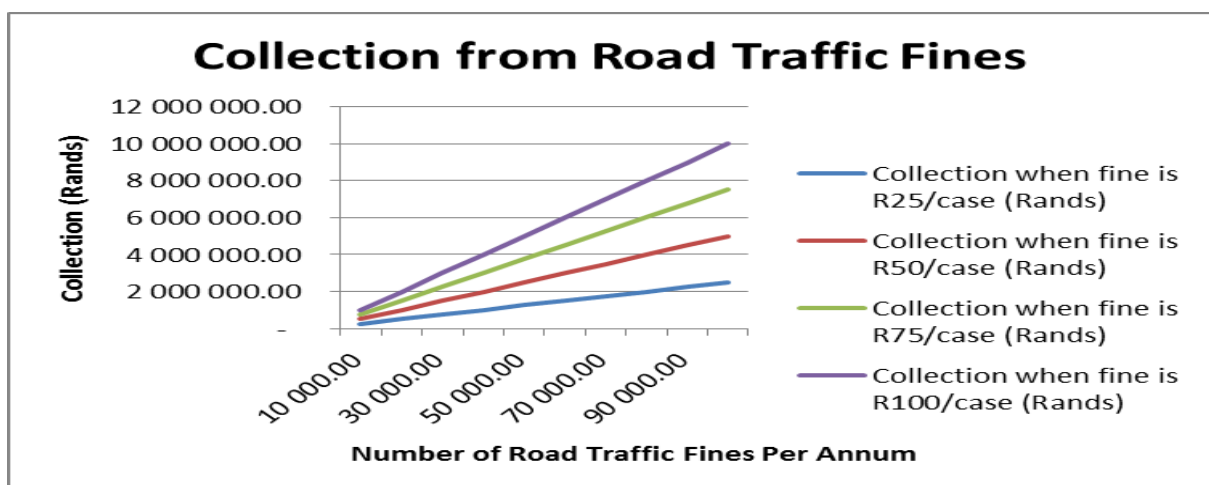


Figure 9: Four scenarios showing collection to be made from road traffic fines

The results are summarised as follows:

- When Fine is varied from R25 to R100 per case, and
- the number of cases ranges from 10 000 to 100 000, then
- the collection will be between R0.25 million and R10 million.

The minimum amount to be collected is R0.25 million and the maximum is R10 million assuming that the range used is correct.

5.2.6 Gambling

Three gambling items have been used in this case and these are Casino, Horse Racing and Lottery. Figure 10 below, shows the collection from all the Casinos in the country.

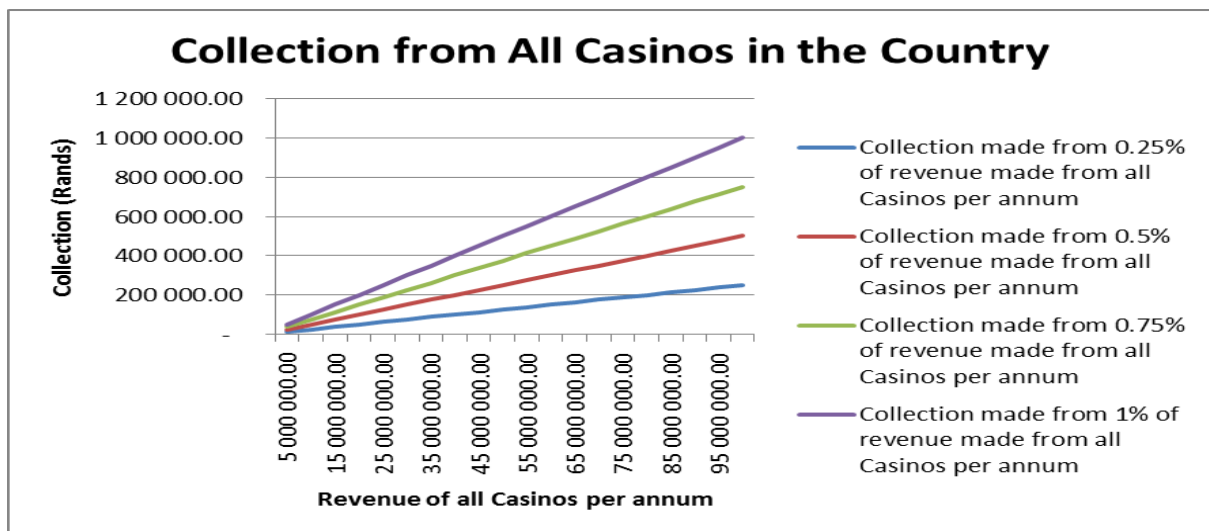


Figure 10: Four scenarios showing collection to be made from Casinos

The results are summarised as follows:

- When percentage of revenue is varied from 0.25% to 1%, and
- the revenue ranges from R5 million to R100 million, then
- the collection will be between R12 500 and R1 million.

Figure 11 below, shows collection from Special Horse Racing Events held in South Africa on a yearly basis which attracts wealthy and famous people.

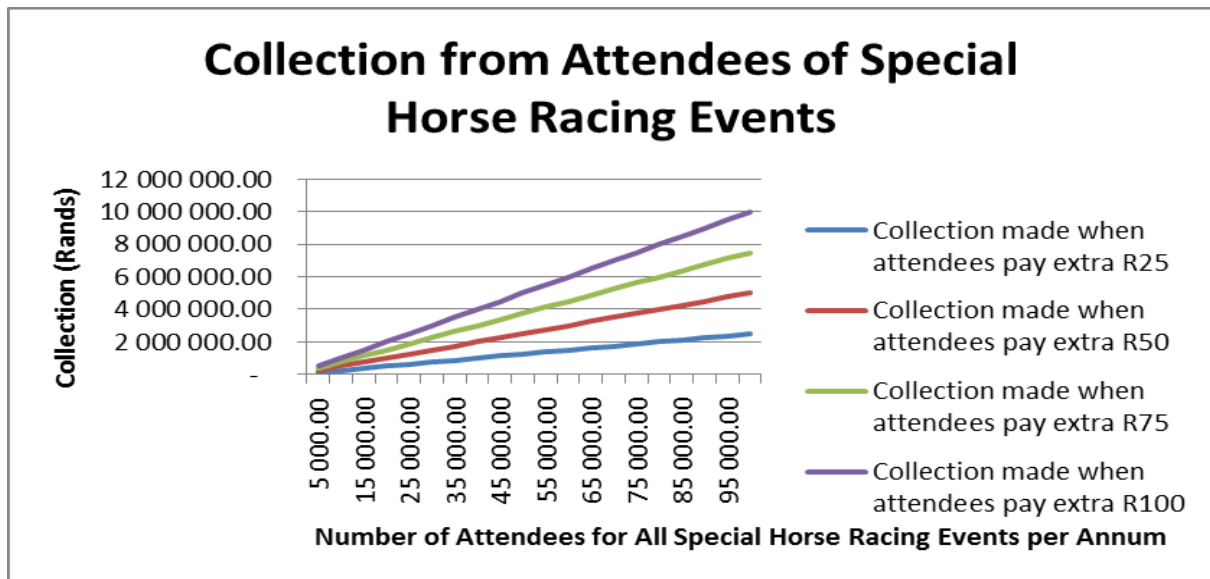


Figure 11: Four scenarios showing collection to be made from Special Horse Racing Events

The results are summarised as follows:

- When attendees contribution is varied from R25 to R100 per person, and
- the number of attendees for all events in a year ranges from 5 000 to 100 000, then
- the collection will be between R0.125 million and R10 million.

Figure 12 below, shows collection from Lottery over a period of a year.

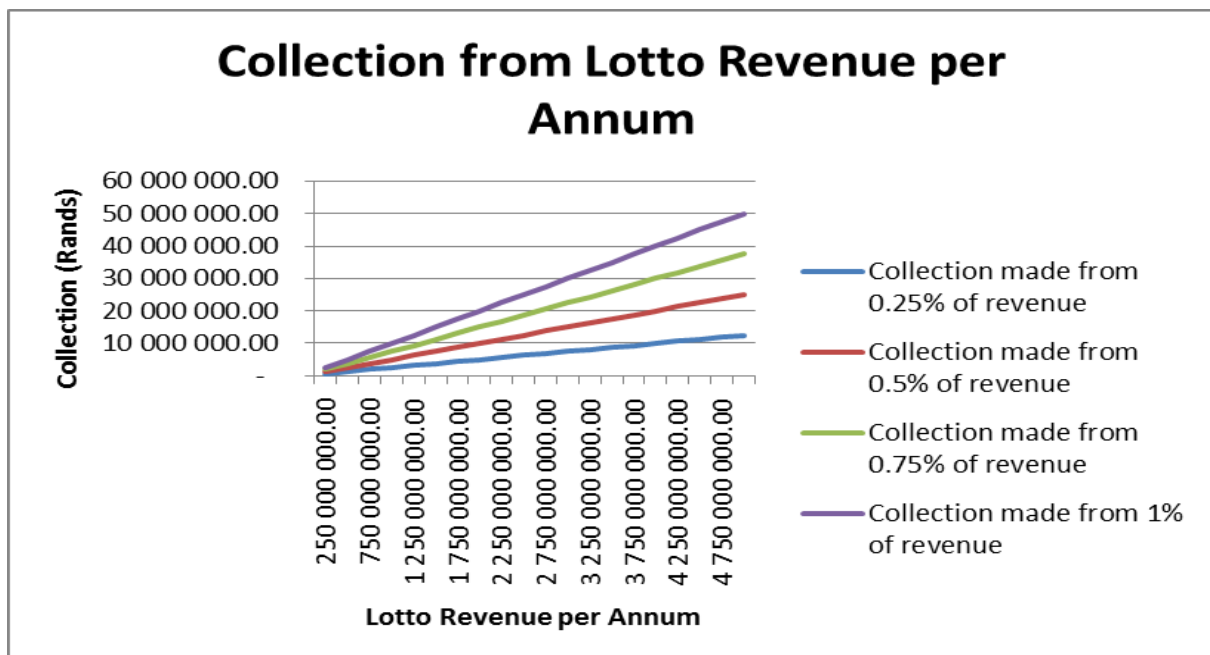


Figure 12: Four scenarios showing collection to be made from Lottery

The results are summarised as follows:

- When percentage of Lotto revenue is varied from 0.25% to 1%, and
- the revenue collected ranges from R250 million to R5 billion, then
- the collection will be between R0.65 million and R50 million.

The results of the three items of gambling when consolidated have a minimum amount of R787 500 and maximum of R61 million, assuming that the ranges used are correct.

5.3 Consolidated Outputs

This subsection is to provide the consolidated results from all of the above mentioned options. The results are the combination of once-off and recurring contributions, therefore assuming that all items are implemented, the initial stage will have all the items, thereafter the once-off contributions will fall off the table since are non-recurring.

5.3.1 Consolidated Results: Recurring and Once-Off Contributions

Table 6 below, provides the minimum and maximum amounts to be generated during the first year of implementation, assuming that all items are chosen. If some are excluded these have to be deleted from the table.

Table 6: Recurring and Once-Off Contributions

Category	Item	Minimum	Maximum	SubTotal Minimum	SubTotal Maximum
Taxing non-basic foodstuff	Drinks	1 000 000.00	320 000 000.00		
	Sweets	700000	20 000 000.00	1 700 000.00	340 000 000.00
Taxing Luxurious Goods & Services	Cars	2 500 000.00	200 000 000.00		
	Takeaways	2 500 000.00	200 000 000.00	5 000 000.00	400 000 000.00
Once-Off Contribution	Formal Workers	10 000 000.00	400 000 000.00		
	Companies	500 000 000.00	20 000 000 000.00		
	Rich People	100 000 000.00	4 000 000 000.00	610 000 000.00	24 400 000 000.00
Tariff	Parking Lots	100 000.00	4 000 000.00	100 000.00	4 000 000.00
Road Traffic Fines	Fines	250 000.00	10 000 000.00	250 000.00	10 000 000.00
Gambling	Casinos	12 500.00	1 000 000.00		
	Horse Racing	125 000.00	10 000 000.00		
	Lotto	650 000.00	50 000 000.00	787 500.00	61 000 000.00
			TOTAL (R)	617 837 500.00	25 215 000 000.00

5.3.2 Consolidated Results: Recurring Contributions

Table 7 below, provides the results of funds to be generated in subsequent years, when all once-off contributions are excluded as these will fall off after the first year, assuming that all the once-off were implemented in the first year.

Table 7: Recurring Contributions

Category	Item	Minimum	Maximum	SubTotal Minimum	SubTotal Maximum
Taxing non-basic foodstuff	Drinks	1 000 000.00	320 000 000.00		
	Sweets	700000	20 000 000.00	1 700 000.00	340 000 000.00
Taxing Luxurious Goods & Services	Cars	2 500 000.00	200 000 000.00		
	Takeaways	2 500 000.00	200 000 000.00	5 000 000.00	400 000 000.00
Tariff	Parking Lots	100 000.00	4 000 000.00	100 000.00	4 000 000.00
Road Traffic Fines	Fines	250 000.00	10 000 000.00	250 000.00	10 000 000.00
Gambling	Casinos	12 500.00	1 000 000.00		
	Horse Racing	125 000.00	10 000 000.00		
	Lotto	650 000.00	50 000 000.00	787 500.00	61 000 000.00
		TOTAL (R)		7 837 500.00	815 000 000.00

5.4 Conclusion

The information provided in this Chapter clearly shows the contributions from each option as provided in Chapter Four above. To give flexibility in terms of understanding the contributions to be made, it was decided to use different ranges and scenarios. One variable was changed at a time. For instance, regarding the contributions of the drinks, different estimated quantities of drinks to be sold was listed and fixed, then calculated the contribution at different rates. One rate gives one line graph and a total of four rates were used, hence four line graphs per item. Calculations and graphs were done on excel and the file is available on request. From the results produced it appears that there is sufficient money to be generated from this approach.

CHAPTER SIX

FINANCING STRATEGY OF THE SMEs

6.1 Introduction

This is an important Chapter that tries to unlock the challenges faced by the SMEs in having access to the funds. Although Chapter Five came up with ideas regarding where one would source the funds from, but the information in this Chapter will still be applicable regardless of where the funds will come from.

The emphasise put in this Chapter is on collective effort to address the problems of the SMEs. What is also important is the coordination strategy to be adopted to ensure smooth running of the process. It is crucial to draw the attention of the reader to the following points before attempting to unpack the strategy as these points will come handy when the strategy is revealed:

6.1.1 Role of Business Schools to Economic Development

The presence of business schools has facilitated the training of leaders to take care of businesses to ensure that they are profitable and sustainable. What has also emerged is that the candidates are taught to deal with real business problems so that when they go back to their work environment are able to solve the challenges immediately without any delays which could be costly if not attended to immediately.

If you follow closely the programmes offered by the business schools you would notice that they try to be innovative and introduce new programmes to meet certain objectives. As we are living in a very dynamic environment we would expect the role played by the business schools to be bigger than it is currently. This is important since especially in South Africa there are so many challenges of which some would need the intervention of the business schools. The role of business schools has been more indirect to economic development than direct, simply because their focus is on academic matters and to produce competent graduates who would play an active role in the economic activities.

There is a sufficient room for academia to participate actively and directly in unlocking the challenges of South Africa. It is against this backdrop that the business schools were identified for inclusion in the strategy to be developed for the SMEs which will follow later on in this Chapter.

6.1.2 Reversing the Increasing Number of Unemployed Graduates

Among many challenges facing South Africa, one of them is high level of unemployment. What is shocking is that most of the unemployed people are qualified graduates which the market is failing to absorb either because there are not sufficient businesses to take them in or because they lack work environment experience.

The high number of unemployed graduates has made others to request for the wage subsidy in order to compensate for unemployment. There has also been an attempt to get more businesses to develop internship programmes for the graduates, of which there have been positive responses from some companies. Wage subsidy and internship are part of the solution, but there are other things that can be tried to address the problem. For that reason it was decided to include the unemployed graduates as part of the solution for assisting with challenges experienced by the SMEs. There is a big role to be played by the graduates since some of the SMEs do not have the necessary skills to keep the business sustainable. For that reason when the strategy for the SMEs is developed the role to be played by the graduates is stated and for that reason, the increasing number of unemployed graduates will reverse.

6.1.3 Limitations Due to Geographical Location of Structures Geared for the SMEs

A list of some of the financial institutions which should be playing a critical role in providing finance to the SMEs is provided in appendix. It emerges that most of these institutions are located in Gauteng Province, possibly because Gauteng is regarded as the economic hub of South Africa. If that is indeed the reason for determining the location, it is one sided because there are a number of Provinces in the country which should also be developed, which are far behind in terms of development when compared to the Gauteng Province. Although there are contact details provided by these institutions, but these would not be effective since the institutions might not be known by those outside Gauteng Province, also some people would need face to face service to be able to understand some of the involved issues. If a reference is made to an article in Mail & Guardian (31 August to 6 September 2012, p.3.), it is mentioned that the owner of the company called Wrap Tite felt that there is more paperwork and spreadsheets to be filled when you apply for finance at the Industrial Development Corporation (IDC). IDC is also located in Gauteng Province. Despite all the paperwork to be done, IDC is commended for being efficient and helpful in understanding what is required. It seems that for someone residing outside Gauteng Province would be more frustrated by the paperwork and the spreadsheets. Possibly would be time consuming to fill the application without the assistance of the IDC staff as the article goes further stating that "it is not something that happens overnight."

To prove that geographical location can indeed benefit those living in the same area as the financial institution or possibly well-established Provinces which can easily have access to information pertaining to finance. The article in Mail & Guardian (31 August to 6 September 2012, p.1) states that most women businesses which benefited from the Women Entrepreneurship Fund which has been allocated an amount of R300 million from 2008 until 2015, are businesses in the Gauteng and Western Cape Provinces. At the time of publishing the article about R60 million had been approved for 16 enterprises.

The proposed strategy takes this into consideration to ensure accessibility of funds to areas which are not well covered by the current system.

6.1.4 Challenges Created by the Lack of Collateral

Among many other things considered to be the stumbling block to the SMEs in having access to finance is the issue of collateral. If you have a business idea but there is no equity and assets to back the application for finance, chances are high that your application will be rejected simply because you have no track record for the assessors to determine how the business has been operating. Lack of these items makes the business to be classified high risk.

If collateral and lack of track record are among the reasons for the SMEs not to have access to funds, surely there must be some innovative solutions to the problem which will cushion the risk. The proposed strategy also considers this point to ensure that not only funds mentioned in this report are made available to the SMEs but also funds from the current institutions can be accessed without fearing for risk.

6.1.5 Business Coaching Philosophy

It is worth mentioning that there is a saying that to be a successful leader you need a personal mentor. There is a belief that a personal mentor must be someone who has gone through certain stages of life to be able to provide guidance and development in order to take the best out of you. This shows us that even successful people need some support structure to get them through stages of life or business cycle. If this works for individuals surely it would work for the SMEs as well like it does for the big businesses which are financially capable to pay for the consultants to assist them in certain aspects of business. It means that a certain approach other than appointing the consultants would work for the SMEs.

In an attempt to support this idea some information was researched so that it forms a strong basis to take the idea forward in a systematic manner for the benefit of the SMEs and the

country at large. The outcome of the research has revealed that there is growth in business coaching geared towards the entrepreneurs. The article by Shevel (2013, p.1) indicates that business coaching is steadily becoming popular among those seeking to start small businesses either due to being retrenched from their previous employment or because they quit their employment in pursuit of the business venture. It is indicated that some seek for business coaches because they have limited knowledge of business. Business Coaching is estimated at \$10-billion a year and is expected to grow further in the next four years. An interesting point mentioned by this article is that about 80% of global businesses fail. Among the reasons to this failure is due to businesses growing beyond the expected rate. From this statement one can derive that business failure can also be due to growth beyond the expected rate not necessarily due to lack of resources and customers or clients to keep the business running, as is mostly known with some business failures in South Africa.

The threat in Business Coaching is that there would be people claiming to be business coaches, who would easily print business cards stating business coach. It is suggested that to deal with the situation it is better for business coach to join a reputable business coaching consultancy. It appears although not mentioned in the article that you must have money to access the service of a business coach. If you are a small business seeking to find finance it seems that business coaching will be the last thing in mind. From this, one can say that business coaching will work for those with some financial reserves set aside for personal development.

The membership of business coaching in South Africa is growing. It is indicated in the article that “the representative body Coaches and Mentors of South Africa (Comensa) has 1300 members, up from 300 members in 2008.” Despite the increasing number of business coaches the SMEs are still struggling, meaning that the current set up of business coaching is not geared to those businesses which cannot afford the service fee to business coaching.

Another point mentioned in the article which is questionable is that there is a need for business coaches because “life is becoming a little tougher and demands are greater” and that “you cannot learn how to run a business at any university.” Possibly if you are referring to a traditional university, the second point mentioned could be relevant, but if this point also includes business schools, then one would like to differ since business schools deal with real world problems in preparing for the graduates for the leadership roles in addressing real life problems.

It is against this backdrop that this article and the points mentioned in this section were included to devise a mechanism to assist the SMEs. There is no question that all of the points mentioned in this section can be linked to each other in an attempt to make a robust intervention mechanism which follows the philosophy of business coaching but in a slightly different angle, which believes that business schools have a role to play in running businesses, also that money should not be the stumbling block to get some business coaching techniques. What is believed to be critical is a business concept which should be operationalised through an integrated approach which is developed under the strategy of the SMEs that follows below.

6.2 A Strategy to Unlock the Challenges of SMEs

This section is a roadmap to tackling the challenges of financing the SMEs in South Africa. To supplement the current existing financial structure, the proposed strategy points to some other approaches which could benefit the SMEs. It is important to mention that the current structure if it rejects the application to finance an SME, it does not make a follow up on what to be improved. If an SME does not meet the set evaluation criteria, it means that no finance will be provided. For instance, if one looks at the approved value of the applications regarding the Women Entrepreneurial Fund administered by the Industrial Development Corporation which is at R60-million and far below the fund value of R300-million one would conclude that there is some intervention mechanism needed. The intervention is needed because the fund was established in 2008 and would run until 2015. Some of the reasons provided by the IDC for slacking behind in terms of providing finance are that the application for fund should be of a minimum value of R2-million and the proposed business should contribute significantly to job creation and economic development, beside that the business should be owned by a woman.

In preparation for this Chapter, a number of options to source the funds for the SMEs where provided in Chapter Four and Chapter Five. This was done in case this strategy is a success and the demand for finance exceeds the current supply, then there is a way to raise finance to cater for the excess demand. The options are for planning purpose to manage the risk of running out of funds. The information provided above regarding the fund administered by the IDC which is not fully utilised is a good indication that this strategy could be used to tap into the Women Entrepreneurial Fund. It is worth mentioning that the IDC funds are also made available to companies that would provide loans to other companies to develop their businesses. This is what the Department of Trade and Industry in the literature review, section 2.2.4, refers to as the wholesale approach adopted by the Development Finance Institutions.

The proposed strategy for financing the SMEs in South Africa is as follows:

6.2.1 Business Schools to Play a Coordination Role

Beside that the business schools role is to produce qualified people, there is a big direct role to be played by them to address some of the country's challenges, simply because the business schools in South Africa have a good reputation. Whilst on good reputation, section 6.1.5 on Business Coaching Philosophy made reference to business coaches to join a reputable business coaching consultancy. It means that a reputation plays an important role in trusting the service to be received from the provider. Whatever task is given to the business schools would be handled with professionalism in order not to destroy the good image which they have developed over the years which requires a lot of determination and courage. It is not impossible for the business schools to undertake this concept since a similar idea but in a different format has been adopted by some traditional universities (normal universities offering undergraduate and graduate programmes). Some universities in South Africa have a so called Law Clinic which is a support structure accessible to the public for consultation on law related matters. This is part of the community outreach programme where advices and guidance are provided. This strategy can be adopted by the business schools under the same thinking followed by the traditional universities in introducing the concept of Law Clinics. In the literature review, section 2.2.5, the Banking Association South Africa suggested the support of the creation of SME Ministry or SME Champion, hence the selection of the business schools is in-line with what the Banking Association South Africa is calling for. A similar point is mentioned again by the International Finance Corporation in the literature review, section 2.2.8, that there is a need for effective coordination. The business schools will play that championing or coordination role.

Business schools have a good network of professionals all over the world due to different engagements they get involved in. For these reasons there can be a unit at each business school that is dedicated to addressing the country's challenges by implementing certain intervention mechanisms. Regarding the SMEs, during the early years the business schools should only be responsible for the SMEs in their Province to make funds accessible within that Province, whilst getting used to their new role, thereafter they can also target those Provinces outside the location of the business schools. To market this idea in the Province they should adopt a similar approach that they use to market their academic programmes.

To tap into funds such as the Women Entrepreneurial Fund for distribution to the SMEs it seems that each university will not necessarily use the same criteria as IDC to evaluate applications based on a minimum value of R2-million, since the funds will be spread to a

number of companies. When the total amount which is distributed is added together the sum will be far above R2-million. This strategy is not necessarily about the IDC funds, but is about all the funds which can be made available to the SMEs. The main issue with the SMEs is that they have no collateral and business track record, for these reasons they pose high risk. The risk factor which is always quoted by the financial institutions can be reduced when the business schools make use of the unemployed graduates to assist the SMEs with the daily running of the business, at the same time the graduates would be an eye and ear for the business schools. Please note that with the current system used by the financial institutions, when a fund is provided, there is no person that is monitoring the business activities of the recipient for the funds on a daily or continuous basis, as the result anything can happen along the way. When the sponsor gets to know about the situation there is no extra support that can be provided to address the business challenge because that is not their focus to address challenges other than providing finance to a viable business concept.

To ensure that this strategy does not get out of control especially during the first two years of its implementation, there should be a set period that the SMEs must send their applications to the business schools for sponsorship to be released the following year. This is the same concept that is used by tertiary institutions for admission of students, where the applications will be open for a certain period, thereafter the screening process starts. There will be workshops conducted to assist business owners with business plans before sending their applications. Those with the know-how of drafting the business plans are welcome to use their knowledge. For great impact to the economy, certain applicants with related business ideas could be encouraged to work together since they will be residing in the same Province. Please note that when you apply for finance you do not know who are other people with a similar or related business concept, or just business ideas with the potential to be integrated together. This approach will ensure that the resources are optimally utilised for the benefit of everyone.

The business schools will be free to use any database to locate the unemployed graduates for placement at the SMEs, this includes their own graduates. In terms of managing the implementation strategy, the business schools are also at liberty to be innovative in terms of determining their preferred approach. Since the Department of Trade and Industry (IDT) is responsible for business activities in the country, the business schools will be accountable to the IDT on the issue of the SMEs.

For the business schools to have an incentive to be involved into this there should be a portion of money that will be paid to them for driving the strategy. At the same time the

information to be gathered from the reports to be written by the graduates on business progress and how the encountered challenges were managed can be used for academic purposes with the exclusion of confidential information if any.

6.2.2 Cushioning the Business Risk by Absorbing Unemployed Graduates

The unemployed graduates that will be taken to assist the SMEs will have to sign a code of conduct, which must stress that they will be serving the interest of the applicable business school. The graduates have to provide the business schools with weekly report on the progress of an SME which has received financial assistance since finance will be provided in stages after ensuring that everything is taken care of and should there be problems along the way and if the graduate cannot solve the problem, the business school can always be consulted for advice. This is the same concept mentioned above about business coaching. In the literature review, section 2.2.5, the Banking Association South Africa emphasised on providing mentoring to the SMEs, then the graduates and the business schools will play that role. Before placing the graduates, the business schools will know the skills available to the SMEs and the crucial ones which are lacking that can jeopardise the business concept. The number of graduates to be placed at each SME will be determined by the business to be undertaken and the available skills within the business. There will be at least one graduate at each SME that has been provided with finance.

6.3 Conclusion

This chapter was to develop a framework to be used to address the challenges faced by the SMEs in having access to finance. The strategy is based on using the available resources at optimal level. The key drivers will be the business schools because they have experts from different countries who could contribute in tackling any challenges on the way which will be under their control. Unlike in the current system where they cannot interfere with the existing financing structures, but they can only raise their opinions which could be taken or neglected. The unemployed graduates will have an opportunity to shape the SMEs under the guidance of the Professors who will be allocated this role in ensuring the implementation of the strategy. The business schools will be allowed to be innovative in driving the strategy.

CHAPTER SEVEN

DISCUSSION

7.1 Assessing the Stance of SMEs

The literature review was done to understand the issues around lack of financing of the Small and Medium Enterprises in South Africa in order to be able to develop a mitigation strategy to the problem. The two main issues that came out strongly regarding the study are that:

- (1) some financial institutions are targeting certain sectors to finance. This is noticed in the information provided in the literature review, section 2.1, where the Small Enterprise Development Agency (SEDA) is outlining their projects of interest to support. The same is noticed with some funds set aside by the Industrial Development Corporation where they are targeting certain sectors to finance.
- (2) financial institutions that have funds available for all sectors fear for their money because of high risk associated with SMEs which do not have collateral and business track record.

Amazingly when you look at the summary of the results in the World Economic Forum (WEF) Global Competitiveness Report 2012-13 as published by Maake (2013, p.1), you notice that the two top issues of the literature review which are presented above are not the top issues according to the WEF. Please note that the sectors which are targeted by the financial institutions could be linked to innovation which is point number 10 in Table 8 below, since to be able to enter into these sectors there must be an element of innovation if not supported by the right educational background. Access to funds is ranked number 7. Beside what the ranking is saying the fundamental issue is that the SMEs are having a challenge to access the funds, hence the focus of this research to deal with the issue. It has to be noted that the WEF study focused on all businesses not necessarily the SMEs. Even if their study covered the SMEs, it is highly possible that the unregistered SMEs were not covered. In the literature review, section 2.2.3, it was indicated that South Africa has between 2,4 to 6 million SMEs. Of these figures around 20% are registered. That says a lot with the information presented in Table 8 below, that it might not be addressing all the SMEs, but just registered businesses in general.

Table 8: Most Problematic Factors for Doing Business in South Africa

No.	Factor	% of Response
1.	Inadequately educated workforce	19.7
2.	Restrictive labour regulations	18.5
3.	Inefficient government bureaucracy	16.4
4.	Inadequate supply of infrastructure	10.8
5.	Corruption	9.0
6.	Policy instability	6.1
7.	Access to financing	4.4
8.	Crime and theft	4.1
9.	Poor work ethic in national labour force	3.7
10.	Insufficient capacity to innovate	3.4

Source: Maake (2013, p.1)

Having identified the issues at hand, the next step was to say that if there are no sufficient funds for all other sectors which are not priority, how can those be assisted including the priority sectors which are not fully explored by the entrepreneurs. One had to explore the possible solution to generate funds.

7.2 Testing the Reasonableness of Funds Calculated for the SMEs

This chapter looked at possible ways to generate the funds for the SMEs. The impacts and consequences of each option were not looked at because that was not the scope for the research. What was important was to throw the ideas around knowing that the country is faced with so many challenges which most of these challenges require a lot of money in order to solve the problem. Now without putting a lot of burden to government, the suggestions were made to say that maybe these options could be of help.

Chapter Five then took all options provided in Chapter Four to estimate how much that can be generated from each option. The idea behind the performed calculations was to assess if the funds will be able to support at least one SME. The results would then be compared to the information provided in the introduction. Table 1 which shows the thresholds for the classification for micro, very small, small and medium enterprises indicates that the sector with the most total gross asset value is Mining and Quarrying at less than R23 million. The information in Table 6 on recurring and once-off contributions which is under Chapter Five, tells us that the options would be able to generate between R617 837 500 and

R25 215 000 000 which is equivalent to funding from 26 to 1096 Mining and Quarrying businesses. The information in Table 7 on recurring contributions tell us that the recurring options would be able to generate between R7 837 500 and R815 000 000 which is equivalent to funding from 0 to 35 Mining and Quarrying businesses. Please note that not all SMEs will be applying for R23 million as they vary in sizes and needs, but the quick analysis performed above shows that the funds can make a huge difference in the economy of the country.

The anticipated question on the proposed taxes to generate the funds for the SMEs is that can government impose such taxes. In responding to that, the answer would be that anything is possible provided that the concept is well presented. Please note that this will not be the first attempt by government to introduce a new tax. In May 2013 the National Treasury issued a policy paper for public comment on carbon tax. The purpose for the proposed carbon tax is to charge the emitters if they exceed a certain limit so that they become more environmentally responsible.

To test for the reasonableness of the collection to be made from the options provided in Chapters Four and Five we will use the information from the National Treasury (2013) on carbon tax which was presented to Parliament. They provide tables with information on gross tax revenue and environmentally related taxes as detailed below in Table 9 and Table 10. The results of Chapter Five calculations revealed that the most to be derived from the listed options is the amount of R25 215 million (R25.215 billion). When this figure is compared to the information provided in Table 9 below, it appears that R25 215 million would be between items 6 and 7 in terms of ranking. This tells us that the amount generated is reasonable since it is not too much or too little when compared to the current tax structure. When the same comparison is done with information in Table 10 below, the amount to be generated for the SMEs is still reasonable since it is not too much or too little but within the amounts in Table 10.

Table 9: Gross Tax Revenue

No.	Gross Tax Revenue	2012/13		
		Rand (million)	%	Cumulative %
1.	Person income tax	278 805	33.9	33.9
2.	Value added tax	215 840	26.5	60.4

No.	Gross Tax Revenue	2012/13		
		Rand (million)	%	Cumulative %
3.	Corporate income tax	158 947	19.5	79.9
4.	Fuel levy	40 320	5.0	84.9
5.	Custom duties	35 310	4.3	89.2
6.	Specific excise duties	28 459	3.5	92.7
7.	STC / WTD	19 739	2.4	95.2
8.	Skills development levy	11 378	1.4	96.6
9.	Transfer duty, STT, etc.	8 645	1.1	97.6
10.	Electricity levy	7 984	1.0	98.6
11.	Other	11 407	1.4	100.0
	TOTAL	813 834	100.0	

Source: National Treasury June 2013 – Reducing Greenhouse Gas Emissions Carbon Tax Policy Paper

Table 10: Environmental related taxes

Environmentally related taxes		
No.	R million	2012/13
1.	General fuel levy	40 320
2.	Air passenger departure tax	873
3.	Plastic bag levy	152
4.	Electricity levy	7 984
5.	Incandescent light bulb levy	132
6.	CO2 Vehicle emissions tax	1 568
	Sub Total	51 029
	TOTAL Tax Revenue	813 834
	Sub Total / TOTAL	6.3%

7.3 Testing the Reasonableness of the Proposed Strategy to Finance the SMEs

Chapter Six dealt with the strategy to be used to finance the SMEs in South Africa. The business schools were chosen to be the ideal place to change the current situation with the help of unemployed graduates. The choice of the business schools was based on a number of factors such as having experts in different fields, well established network with international experts, coaching philosophy to graduates and credibility, among others. They will approach the new task on the same principle as that of Law Clinic and are provided with the flexibility to be innovative in the implementation. Assuming that the issues raised by the WEF in Table 8 above are true, one can say with confidence that the business schools will be the right instrument to dilute if not eliminating all the problematic factors mentioned by the WEF.

Please note that the literature review information hinted on the problems determined by the National Credit Regulator on financing of the SMEs which are lack of information of existing financing institutions and possible financing options; few programmes supported by the banks; misalignment of proposed and targeted businesses; not meeting minimum requirements; structural challenges posed by the formation and focus of banks which is less to the SMEs; inflated interest rates charged by the lending institutions; lack of business know-how of the SMEs owners; and lack of proper planning. Again, this information strengthens the choice made to let the business schools solve the issue of financing of the SMEs. All of these challenges mentioned by the National Credit Regulator and others will be the thing of the past.

Although initially the business schools will focus in their Provinces, but with time they will adopt one or two Provinces which have no business schools. They will be assisted by the tertiary institutions in those Provinces if there are any of them to ensure that the implementation process is smooth.

Based on this information it is not too much to ask of the business schools to do since they have a role to play to ensure that the problems of the country are solved. If they are given an opportunity to lead on something, they should not hesitate because they will have control in doing things, of which currently they can only raise their opinions without any guarantee for implementation. Above all of these, the business schools will also receive something which can be discussed between them and the responsible authority.

Therefore, the strategy appears to be reasonable and would be a win-win solution.

CONCLUSION, RECOMMENDATIONS AND FURTHER RESEARCH

Conclusion

The research was started with an idea that the proposed strategy should be original, simple and practical, to ensure that it is implementable; therefore the same approach was followed throughout. Those in journalism would say that a story that keeps people talking, regardless of whether the opinions are for or against the presented information, makes it a good story because it encourages people to think on what should or could have been done to improve the situation. The same say will be borrowed and applied in this report that, since this is the first report of its kind to be presented in academia, and if the contained information makes the researchers and academics to wonder why it was written in this manner. Then that is a good sign to stimulate the interest of the researchers and academics to seek for an improved way to tackle the challenges of the SMEs. It means that it will serve as framework to shape the researchers and academics thinking in finding an amicable solution.

Recommendations

The information contained in this report is mainly the opinion of the researcher, and has used the information from different sources to explain the current situation and to support the arguments put forward. Like they say, there is nothing that is 100% perfect, on that note it is acknowledged that there is a possibility to improve the proposed strategy. It is therefore recommended that the research is taken to another level by unpacking the options provided in chapter four to source the funds of the SMEs by identifying the bottlenecks and the mitigation measures. The implementation strategy can also be trialled with some of the financial institutions to test for feasibility without having to implement any of the options of sourcing funds presented in chapter four since there will be no need to do so when a financial institution is used which will provide financial resources.

Further Research

This report suggested the use of business schools as the source of cushioning the risk and to provide support and guidance to the SMEs to ensure that they have access to finance and have sustainable businesses. At this stage the business schools have not been engaged to get their opinions and how best to operationalise the idea. Therefore further research could engage the business schools for comments. Since different sources of funds were suggested, therefore the National Treasury and South African Revenue Service could also be engaged for comments.

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APPENDICES

A. DETAILED INFORMATION ON FINANCIAL INSTITUTIONS

- **Business Partners Limited**

Business Partners is an investment company for small and medium enterprises. The company invests between R250 000 and R15 million in SMEs across all sectors, with the exception of farming, on-lending and non-profit organisations.

Investment financing is offered for businesses at all stages of development, including start-ups, expansions, outright purchases, management buy-outs, management buy-ins, franchises, tenders and contracts. The company also manages a number of specialist funds, which provide investment financing for defined-profile entrepreneurs.

Business Partners also has a range of support services for the entrepreneur. This includes property management consultants, mentors who are allocated according to the company's needs and access to other expertise need to ensure the success of a business.

Contact: E-mail: enquiries@businesspartners.co.za

Web: www.businesspartners.co.za

Tel: Cape Town: 021 464 3600

Durban: 031 240 7700

Johannesburg: 011 470 3111

- **Commercial Banks**

The commercial banks have specialist SME divisions, providing finance for qualifying entrepreneurs. Visit the banks' websites to find out about their products and services, and their criteria to obtain finance.

ABSA Bank: www.absa.co.za

First National Bank: www.fnb.co.za

Nedbank: www.nedbank.co.za

Standard Bank: www.standardbank.co.za

- **Khula Enterprise Finance**

Khula Enterprise Finance Limited is an agency of the Department of Trade and Industry (DTI) established in 1996 to facilitate access to finance for SMMEs. It is one

of the funds being transferred to the Department of Economic Development. Khula provides assistance through various delivery channels. These include commercial banks, retail financial intermediaries (RFIs) and micro credit outlets (MCOs).

Contact details for some of the Khula products are not available. Where this is the case, the following contact details can be used:

Contact: E-Mail: helpline@khula.org.za

Web: www.khula.org.za

Tel: (012) 394 5560/5900

Toll free: 0800 118815

- **Small Business Growth Trust Fund**

This non-sector specific fund is a partnership between Khula and Fabvest Investment Holdings (FABCOS). It provides:

- Finance start-ups, expansions, bridging finance and asset based finance to qualifying SMEs
- Qualifying SMEs with the necessary infrastructural support and resources
- Fosters entrepreneurship within the SME sector and
- Reaches out to SMEs in priority provinces of South Africa
- Migrates Black businesses from the informal sector to formal sector

Loans range between R10 000 and R3million per portfolio entity with a repayment period not exceeding 5 years.

Contact Details: Tel: (011) 421 2939

Cell: 082 901 2813

Email: info@sisonkefund.co.za

- **Izibulo SME Fund**

The Izibulo SME Fund is a partnership between Khula and Metropolitan Life Limited and The Median Fund (Pty) Ltd. Its purpose is to:

- Provide early-stage funding to SMEs (improve access to finance);
- Provide SMEs with necessary infrastructural support and resources;
- Foster entrepreneurship for men and women in the SME sector;
- Reach out to SMEs in far-flung areas of South Africa;
- Encourage meaningful economic participation of historically disadvantaged South Africans;
- Invest in equity and debt, loans, loans convertible into shares (ordinary or preference shares);

- *Purchase shares (ordinary or preference shares);*
- *Purchase debentures or convertible debentures (convertible into ordinary or preference shares);*
- *Purchase warrants, options and other securities of, or relating to portfolio companies;*
- *Provide consulting services, skills facilitation and development to portfolio companies;*
- *Provide working capital, expansion capital, the purchase of capital assets, refinancing of existing debt obligations;*

Excluded investments include buy-back/purchase of shares from a third party in the portfolio company.

- **Identity Development Fund (IDF)**

This non sector – specific fund is a partnership between Khula and Identity Development Fund (Pty) Ltd (IDF). Its objectives are to:

- *Create long-term growth from profitable portfolio investments in SMEs*
- *Promote BEE (black women and youth)*
- *Provide both debt and or equity funding (50%/50%)*

Repayment periods range between 3-5 years for start-up/early stage companies of R250 000 to R3million, emerging /MBO and expansion of R3million to R7.5million and R7.5million to R30million for community projects.

Contact Details: Tel: (011) 351 2900

Fax: (011) 351 8900

- **Enablis Acceleration Fund**

The Enablis Acceleration Fund is a partnership between Enablis Financial Corporation SA (Pty) Ltd and Khula Enterprise Finance Limited. It is currently capitalised at R50m. Its purpose is to:

- *Improve access to early-stage funding to SMEs*
- *Reach out to SMEs in remote/rural provinces*
- *Create new sustainable jobs.*

It offers equity and or debt instruments over loan periods that do not exceed 60 months.

Eligibility:

- *South African SMEs that are accredited by Enablis Entrepreneurial Network*

- *Black owned and women entrepreneurs for start-ups and/or expansion of the business.*
- *SMEs involved in all sectors - ICT, transport, tourism, agriculture and services industry.*
- *SMEs that need working capital and or asset finance.*

- ***Khula-Akwandze Fund***

The Khula-Akwandze Fund (KAF) is a joint venture between Khula Enterprise Finance Ltd (Khula) and Akwandze Agricultural Finance (Pty) Ltd (Akwandze). Its purpose is to provide agricultural development loans to small and medium scale sugarcane growers and contractors within the sugarcane production value chain in the Nkomazi region of the Mpumalanga Province. The Fund is managed by Akwandze.

The following loan instruments are offered to meet financing requirements:

- *Crop establishment/re-establishment*
- *Ratoon management (crop maintenance)*
- *Purchase and installation of above ground irrigation equipment*
- *Installation of fixed irrigation infrastructure*
- *Electricity supply*
- *Contractor bridging loans and*
- *Right-to-occupy (RTO) rental bridging loans.*

Eligibility

The beneficiary must be a registered Mpumalanga sugarcane grower with the South African Sugar Association;

- *Have a Cane Delivery Agreement (CDA) with Tsb Sugar*
- *Have authority to occupy the land they are farming (freehold, leasehold, right-to-occupy)*
- *Be a citizen of the Republic of South Africa*
- *Be black owned (>50% black owned) or black empowered (>25% black owned)*
- *Be viable and creditworthy, or*
- *A registered contractor with Tsb Sugar that provides services to growers (e.g. cane cutting and cane haulage).*

In addition, the beneficiary must be:

- *A citizen of the Republic of South Africa*
- *Black owned (>50% black owned) or black empowered (>25% black owned) and*

- *Viable and creditworthy.*

Loan Size

Depending on the type of agricultural activity being financed, the maximum loan limits for the different loan instruments range from R1, 300 to R15, 500 per hectare.

Contact Details: Akwandze Agricultural Finance (Pty) Ltd Tsb Sugar Mill, Mhlati Farm Malelane, 1320

Tel: Malelane - 013 791 1396 / Komatipoort - 013 723 4247

Fax: Malelane - 013 791 1175

- **Anglo-Khula Mining Fund**

Anglo-Khula Mining Fund is a joint venture between Anglo American plc and Khula Enterprise Finance to provide financial assistance to junior mining projects.

Product

- *Equity and or debt instrument with individual investments between R1m and R20m per project*
- *Equity stake will not exceed 49% of the issued share capital of the investee company.*

Who qualifies?

- *The owners of the investee company must be involved on a permanent basis, in the day-to-day management and operations of the investee company*
- *The owners of the investee company must contribute to the investee company from their own resources to ensure commitment and risk sharing*
- *The investee company shall comply with all necessary legal requirements as well as Anglo American's standards and procedures regarding environmental and safety policies*
- *Deal flow of the investee company should emanate primarily from contracts between the investee company and Anglo and its subsidiaries.*

- **Khula Credit Indemnity Scheme**

The scheme provides access to finance to people who wish to start or expand small to medium sized businesses but do not have sufficient collateral / security to support facilities provided by participating banks. The scheme covers facilities from R10 000 to R3 million.

Who qualifies?

- *Owner-managed businesses - the owner should be involved in the day-to-day running of the business on a full-time basis*
- *Business activity must be situated in the Republic of South Africa*
- *Business must be conducted with a profit motive and be economically viable*
- *The borrower must be able to repay the bank facility*
- *Individual or person holding a controlling interest must be a citizen of the Republic of South Africa*
- *Borrower with proven and sufficient entrepreneurship, knowledge, skills and experience directly related to the nature of the business*
- *The entrepreneur must provide own contribution towards a start-up or expansion of the business*

Access is via any of the following retail financial intermediaries:

- *Nedbank Ltd*
- *ABSA Bank Ltd*
- *First National Bank Ltd*
- *Standard Bank of South Africa Ltd*
- *Khula Regional Offices for assistance with a business plan development and/or advice on which institution supports the scheme. The financial institution will assess the business plan and facilities application in terms of its lending criteria.*

- **Non-Bank Retail Financial Intermediaries**

Non-bank Retail Financial Intermediaries are independent organisations or companies, which are lent money by Khula on a wholesale basis to on-lend to SMEs. Since RFIs are obligated to repay Khula, they use their own lending criteria to on-lend Khula's funding. However, each RFI has to contribute towards the achievement of Khula's developmental impact objectives, such as providing funding to SMEs which are black owned, women owned and from rural areas. Khula restricts its RFIs to on-lending a minimum of R10 000 and a maximum of R3 million per SME.

Purpose of RFIs

- *To provide a funding alternative to SMEs, who would otherwise not be able to obtain funding from the commercial banks;*
- *To provide financing solutions to SMEs operating in niche markets, where traditional financial products would otherwise not be able to meet the financial requirements; and*

- To provide Khula with a vehicle to facilitate access to finance to previously non-bankable SMEs operating in rural areas.

Geographic Spread of Existing RFIs

Khula currently has a network of non-bank RFIs represented in Gauteng, Kwa Zulu-Natal, Eastern Cape, Western Cape, Free State, Limpopo and Mpumalanga. Although there are RFI branches in Gauteng, Kwa Zulu-Natal and the Western Cape, priority is given to provinces other than the three latter provinces.

Contact: E-Mail: helpline@khula.org.za

Web: www.khula.org.za

Tel: (012) 394 5560/5900

Toll free: 0800 118815

- **Communities Fund and Small Business Hub Programme and Small Business Hub network**

The programme supports small and medium enterprises, facilitating entrepreneurial opportunities and the subsequent creation of jobs in communities located in the vicinity of Anglo American Mines.

Purpose

The fund assists entrepreneurs with seed and working capital through loan finance of up to R1 million per project at preferential interest rates. Beneficiaries must operate in Anglo's business unit areas and comply with the black economic empowerment (BEE) criteria set by the Mining Charter. The Communities Fund works hand in glove with a network of 13 Small Business Hubs which are staffed and financed by Anglo's platinum, coal, iron ore and diamond businesses and are located in their respective areas of operation.

While the fund assists micro enterprises with seed and working capital, the hubs extend a guiding hand to entrepreneurs at walk-in centres. These hubs offer practical support to emerging business owners and aspiring entrepreneurs in the form of business plan assistance and management training and coaching. The hubs also offer telecommunications, internet, printing and meeting facilities while giving entrepreneurs advice on the day-to-day running of their businesses. The Communities Fund provides loan funding of up to R1 million per project. Businesses applying for finance must operate within 50 kilometres or within the labour sending area of an Anglo American mining operation serviced by a hub. The entrepreneur must be a member of the local community.

Contact: SBH Team: Lizette Moll; Fax: 086 656 4713

National representative: Henry Snyman Tel: 083 527 2123

www.smallbusinesshub.co.za

- **Industrial Development Corporation - (IDC)**

The Industrial Development Corporation of South Africa Ltd (IDC) is a self-financing, national Development Finance Institution that promotes economic growth and industrial development in South Africa.

IDC Gro-E Scheme: *The IDC is investing R10-billion over the next five years through its Gro-E Scheme. It offers financial support to start-up businesses, including funding for buildings, equipment and working capital. It also funds companies wanting to expand provided that they show an ability to create jobs and operate in sectors supported by the IDC which include:*

- *Green industries, which include renewable energy, energy efficiency, pollution mitigation, waste management and recycling, and biofuels*
- *Agricultural value chain, including agro-processing*
- *Manufacturing, focusing on advanced manufacturing; automotive, components, medium and heavy commercial vehicles manufacturing; clothing textiles, footwear and leather, forestry, paper and pulp, and furniture; metals fabrication, capital and transport equipment; pharmaceuticals; plastics and chemicals*
- *Mining value chain, including downstream mineral beneficiation, mining and mining technologies*
- *Tourism and high-level services, which includes business process services and tourism*
- *Media and motion pictures, which has to do with media pictures production, the media value chain of broadcasting (radio and television), media expansion including new media, music value chain, and film production and animation and*
- *The knowledge economy, to do with health care, information and communications technology and biotechnology.*

Criteria:

- *Start-up businesses, including funding for buildings, machinery and working capital;*
- *Existing businesses for expansionary purposes;*
- *Businesses that demonstrate economic merit and have prospects of acceptable profitability to be able to service their obligation;*

- *For the duration of the funding period, businesses whose maximum cost per job does not exceed R500 000 relative to the total funding required;*
- *Broad-based Black Economic Empowerment certification from an accredited verification agency, where applicable; and*
- *Businesses operating or expanding in South Africa.*

Loans are given at prime less 3% with a minimum of R1-million and a maximum of R1-billion per project.

Contact: Email: callcentre@idc.co.za.

Website: www.idc.co.za.

Call Centre: 0860 693 888

- **South African Investment Network**

This is an online platform that connects entrepreneurs seeking business funding with “angel” investors looking for investment. They maintain that they have access to R83 billion to invest. They connect global and local investors and entrepreneurs.

Contact: Website: www.investmentnetwork.co.za.

- **Sasfin Private Equity**

Sasfin provides private equity funding for entrepreneurs. It is a versatile form of funding that allows enterprises of any size to unlock their potential without burdening them with excessive debt. Sasfin Private Equity invests its own capital in the client’s business and also provides support and guidance to grow the value of the companies in which they invest in the form of strategic insight and, where necessary, operational, financial and governance input.

Contact: Email: msegal@sasfin.com

Web: www.sasfin.com.

Tel: 011 445 8001.

- **The International Tourism Marketing Assistance Scheme (ITMAS)**

ITMAS provides partial compensation to businesses for certain costs incurred for activities aimed at promoting tourism to South Africa. It assists South African companies to market their tourism products in foreign countries by way of brochures, manuals, multimedia presentations, computer-based marketing information or any other international marketing materials. Reimbursement is provided for the design, compilation, production, printing, reprinting and distribution of material to market the

products internationally. Assistance will only be provided for materials that were specifically produced to market tourism products in foreign countries.

Contact: Department of Tourism to register as participants in the scheme.

Email: callcentre@tourism.gov.za

Switch Board Number: 012 444 6000

Switch Board Fax: 012 444 7000

Physical Address:

17 Trevena Road

Tourism House

Sunnyside

Pretoria

0001

Postal Address

Private Bag X424

Pretoria

0001

- **African Contractors Finance Corporation (Pty) Ltd**

A Miscellaneous Business Credit Institution

42 Bath Avenue

Johannesburg,

Gauteng 2196

South Africa

Tel: 011 256 9400

- **Business Finance Promotion Agency (BFPA)**

The BFPA has several products.

- ✓ **Impact Bridging Financing**

Funding is provided for emerging and established contractors in the form of bridging finance and performance guarantees for businesses in the construction industry.

- ✓ **Khula Emerging Contractors Fund.**

Finance is aimed at department of Public works and other government contracts associated with infrastructure development.

✓ **Smart Choice Order financing**

This scheme does not require collateral and payments are ceded to the Business Finance Promotion Agency

✓ **BFPA Classic Loan**

Term loans up to R150 000 over a maximum period of 3 years offered

✓ **Flexi Payroll Based Loan**

Personal loans based on payroll deductions and salary advances up to R5 000.

Contact: Comsec Complex, Grahamstown Road, Sydenham [Port Elizabeth](#) , Eastern Cape. Phone: 041 487 0190; Fax: 041 487 0192; www.bfpa.co.za

- **National Youth Development Agency: National Youth Fund**

The fund aims to mainstream and integrate youth development for sustainable livelihoods by initiating, facilitating, implementing, coordinating and monitoring youth development interventions aimed at reducing youth unemployment and promoting social cohesion

Requirements:

- *Youth (35 and younger) must hold greater than 50% of the shares in the company;*
- *Must be a previously disadvantaged South African youth*
- *The youth must be operationally involved in the business;*
- *Must demonstrate commitment to the venture;*
- *The venture must be economically viable.*

The following types of ventures are excluded from funding: Gambling, Tobacco Property development and illegal practices.

Contact: Call Centre: Tel: 08600 96884 Fax: 086 606 6563

- **The Land and Agricultural Development Bank of South Africa (Land Bank)**

The bank is a development finance institution (DFI), wholly owned by Government, whose mandate is to support, promote and facilitate the development and transformation of the agricultural sector. It has a responsibility to support Government's efforts to increase access to land, provide support for emerging farmers and raise rural incomes.

Products and Services

- ✓ *Mortgage Loans, including loans to well-established commercial farmers or agri-businesses that own fixed agricultural property and want to buy land, consolidate their debts, and or other purposes linked to agriculture.*
- ✓ *Special Mortgage Bonds for Farmers who were previously denied the right to buy land and/or who*
 - *Have the potential to become successful farmers*
 - *Own land in towns or cities can get Special Mortgage Bonds*
 - *Are historically disadvantaged and are first time buyers of agricultural land*
- ✓ *Medium Term Loans in the form of cash credit accounts. Clients' financing are aligned with and according to their agricultural needs.*
- ✓ *Installment Sale Finance which provides an option for farmers who want to buy movable farming assets and equipment.*
- ✓ *Installment Sale Finance (Livestock) which offers clients an opportunity to purchase large breeding livestock (e.g. bulls, cows).*
- ✓ *Establishment Loan for perennial crops, typically for establishing sugar cane plantations, citrus and deciduous fruit orchards, timber plantations and vineyards for table and wine grapes.*
- ✓ *Short term (seasonal) loans which are tailored to meet important financing needs in the agricultural production cycle including the provision of advances for crop intakes, production requirements, production credit and other related services that includes the handling, manufacturing, packing, processing, storage, transport and marketing of agricultural products.*

Contact: Email: info@landbank.co.za; Tel: 012 686 0500